

Essential Foundations of Economics, 6e (Bade/Parkin)
Chapter 7 Government Actions in Markets

7.1 Taxes on Buyers and Sellers

1) Tax incidence is the

- A) burden buyers have to absorb from a tax on goods and services.
- B) burden sellers have to absorb from a tax on goods and services.
- C) lost revenue the government endures from goods and services that are not taxed.
- D) division of the burden of a tax between the buyer and the seller.
- E) deadweight loss created by a tax.

Answer: D

Topic: Tax incidence

Skill: Level 1: Definition

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

2) Tax incidence is the

- A) dollar amount of a tax, expressed as a percentage of the purchase price.
- B) dollar amount of a tax per unit sold.
- C) division of a tax burden between the buyer and seller.
- D) amount of revenue collected by government on a specific good.
- E) deadweight loss from the tax.

Answer: C

Topic: Tax incidence

Skill: Level 1: Definition

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

3) The incidence of a tax refers to

- A) the division of the burden of a tax between buyers and sellers.
- B) the deadweight loss that a tax generates.
- C) the inefficiency of a tax.
- D) the revenue collected by government because of a tax.
- E) the division of the burden of a tax between the public and the government.

Answer: A

Topic: Tax incidence

Skill: Level 1: Definition

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

- 4) If a \$10 sales tax is imposed on a good and the equilibrium price increases by \$10, the tax is
- A) split between buyers and sellers but not evenly.
 - B) paid fully by sellers.
 - C) paid fully by buyers.
 - D) split evenly between buyers and sellers.
 - E) impossible to determine the incidence of without further information.

Answer: C

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

- 5) Sales taxes are usually collected from sellers, who view the tax as
- A) resulting from a leftward of the demand curve.
 - B) an additional cost of selling the good.
 - C) an addition to the demand for the product.
 - D) an addition to profit.
 - E) the same as a rightward shift of the demand curve.

Answer: B

Topic: Tax incidence

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

- 6) Imposing a sales tax on sellers of a product has an effect that is similar to which of the following?
- A) a decrease in consumers' preferences for the good
 - B) an increase in the costs of production
 - C) an increase in demand for the good
 - D) a decrease in people's willingness to work
 - E) Anything that decreases the demand and shifts the demand curve leftward.

Answer: B

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

- 7) A sales tax imposed on sellers of a good
- A) decreases the demand and shifts the demand curve rightward.
 - B) decreases the supply and shifts the supply curve leftward.
 - C) decreases both the demand and the supply and shifts both the demand and supply curves leftward.
 - D) decreases the supply and shifts the supply curve rightward.
 - E) has no effect on either the demand or the supply.

Answer: B

Topic: Tax incidence

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

- 8) Suppose the government imposes a \$1 per gallon per gallon tax on sellers of gasoline. As a result, the
- A) supply curve shifts leftward.
 - B) supply curve shifts rightward.
 - C) demand curve shifts leftward.
 - D) demand curve shifts rightward.
 - E) demand and supply curves both shift leftward.

Answer: A

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 9) If a good has a tax levied on it, sellers respond to the price that excludes the tax and not the price with the tax because
- A) the tax is handed over to the state directly by buyers.
 - B) sellers do not get to keep the tax revenue.
 - C) the demand for the good has decreased.
 - D) the quantity supplied of the good increases.
 - E) demanders pay none of the tax.

Answer: B

Topic: Tax incidence, price wedge

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

10) The elasticity of demand for a good is 1 and the elasticity of supply is 0.8. Thus, imposing a tax on the good _____ the price kept by sellers and _____ the price paid by buyers.

- A) raises; raises
- B) raises; lowers
- C) lowers; raises
- D) lowers; lowers
- E) does not change; raises

Answer: C

Topic: Tax incidence, price wedge

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: MR

AACSB: Analytical reasoning

11) Neither the demand nor the supply of gasoline is perfectly elastic or inelastic. When the government increases the federal tax on gasoline, the effect on buyers is that the price of gasoline

- A) rises.
- B) falls.
- C) does not change.
- D) rises if the demand is inelastic and falls if the demand is elastic.
- E) rises if the supply is inelastic and falls if the supply is elastic.

Answer: A

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

12) The demand curve for pizza is downward sloping and the supply curve is upward sloping. If the government imposes a \$2 tax on a pizza, _____ the tax.

- A) only consumers pay
- B) only producers pay
- C) both producers and consumers pay
- D) neither producers nor consumers pay
- E) the government pays

Answer: C

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

13) Neither the demand nor the supply of automobiles is perfectly elastic or inelastic. If the government imposes a \$1,000 tax on automobiles, then the price of an automobile

- A) increases by \$1,000.
- B) increases by less than \$1,000.
- C) increases by more than \$1,000.
- D) decreases by \$1,000.
- E) does not change.

Answer: B

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

14) Neither the demand nor the supply of sugar is perfectly elastic or inelastic. If the government imposes a 5 percent tax on sugar, the

- A) price of sugar falls by 5 percent.
- B) price of sugar increases by less than 5 percent.
- C) price of sugar does not change.
- D) quantity of sugar increases.
- E) price of sugar rises by 5 percent.

Answer: B

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

15) Giving in to the demand of protestors, suppose the French government reduces the tax on gasoline by 15 percent. Neither the demand for gasoline nor the supply of gasoline is perfectly elastic or inelastic. As a result of the tax cut, the price for a gallon of gasoline paid by buyers

- A) falls by 15 percent.
- B) rises by 15 percent.
- C) falls by less than 15 percent.
- D) rises by less than 15 percent.
- E) falls by more than 15 percent.

Answer: C

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 16) To calculate the revenue government receives when a tax is imposed on a good, multiply the
- A) pre-tax equilibrium price by the pre-tax quantity.
 - B) after-tax equilibrium price by the after-tax quantity.
 - C) tax by the pre-tax quantity.
 - D) tax by the after-tax quantity.
 - E) after-tax equilibrium price by the after-tax quantity and then subtract the pre-tax equilibrium price multiplied by the pre-tax quantity.

Answer: D

Topic: Tax incidence, government revenue

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

- 17) The imposition of a tax on a good enables the government to
- A) raise the price received by sellers of the goods that have been taxed.
 - B) lower the price paid by buyers for the goods that have been taxed.
 - C) create a more efficient economic system.
 - D) take part of consumer and producer surplus as tax revenue when the good is purchased.
 - E) decrease the deadweight loss in this market.

Answer: D

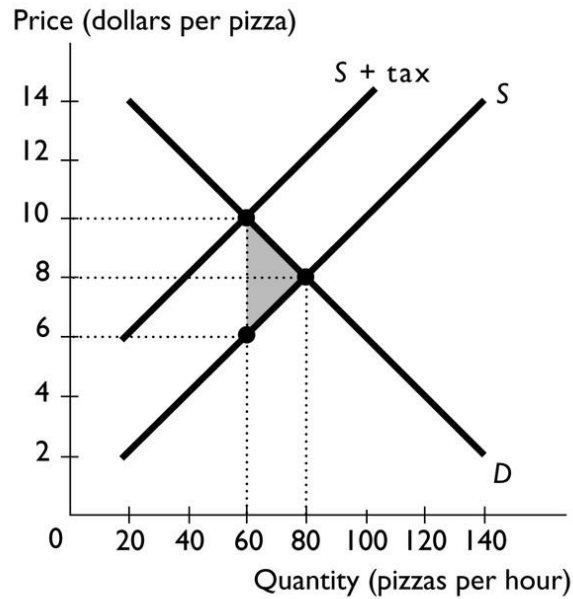
Topic: Tax incidence, government revenue

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning



- 18) In the figure above, suppose that the government imposes a tax of \$4 per pizza. Then, the
- A) buyers and sellers equally share the incidence of the tax.
 - B) shaded area is the deadweight loss from the tax.
 - C) shaded area is the tax revenue from the tax.
 - D) Both answers A and B are correct.
 - E) Both answers A and C are correct.

Answer: D

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 19) In the figure above, suppose that the government imposes a tax of \$4 per pizza. Then, the tax revenue collected by the government equals

- A) \$240.
- B) \$320.
- C) \$160.
- D) \$120.
- E) \$4.

Answer: A

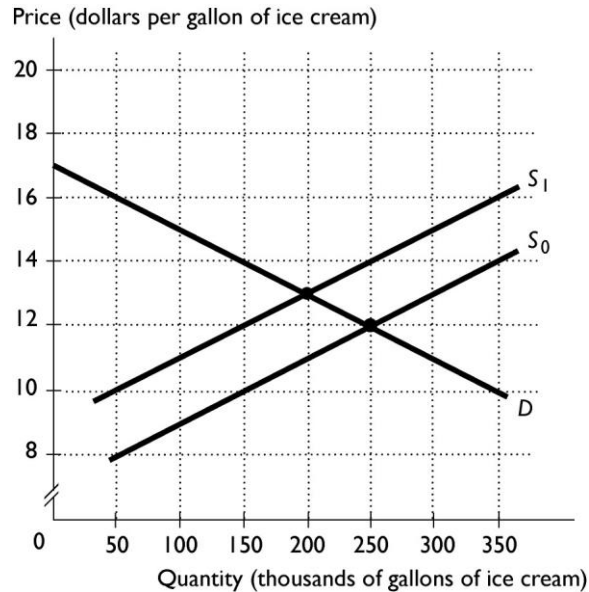
Topic: Tax incidence, government revenue

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning



20) The above figure shows the market for gourmet ice cream. In effort to reduce obesity, government places a \$2 tax per gallon on suppliers in this market, shifting the supply curve from S_0 to S_1 . The quantity of ice cream consumed before the tax is _____ gallons and the quantity consumed after the tax is _____ gallons.

- A) 300,000; 200,000
- B) 200,000; 250,000
- C) 250,000; 200,000
- D) 200,000; 300,000
- E) 200,000; 200,000

Answer: C

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

21) The above figure shows the market for gourmet ice cream. In effort to reduce obesity, government places a \$2 tax per gallon on suppliers in this market, shifting the supply curve from S_0 to S_1 . The total tax revenue is equal to

- A) \$400,000.
- B) \$800,000.
- C) \$500,000.
- D) \$200,000.
- E) More information is needed to determine the total tax revenue.

Answer: A

Topic: Tax incidence, government revenue

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

22) The above figure shows the market for gourmet ice cream. In effort to reduce obesity, government places a \$2 tax per gallon on suppliers in this market, shifting the supply curve from S_0 to S_1 . The tax incidence is

- A) split equally between consumers and producers, each paying \$1 per gallon.
- B) split equally between consumers and producers, each paying \$2 per gallon.
- C) such that consumers pay \$2 per gallon and producers pay \$1 per gallon.
- D) such that consumers pay \$1 per gallon and producers pay \$2 per gallon.
- E) such that producers pay all of the tax.

Answer: A

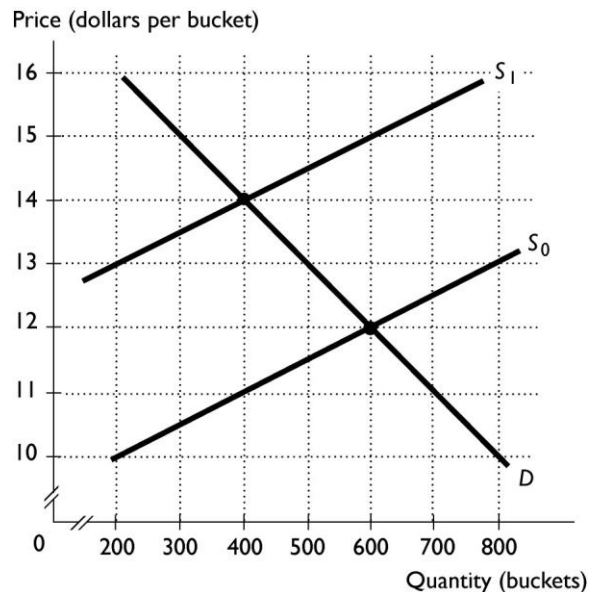
Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning



23) The above figure shows the market for buckets of golf balls at the driving range. A new leisure time tax is placed on suppliers in this market, shifting the supply curve from S_0 to S_1 . The amount of this tax is _____ per bucket of golf balls.

- A) \$4
- B) \$2
- C) \$2.50
- D) \$1
- E) \$3

Answer: E

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

24) The above figure shows the market for buckets of golf balls at the driving range. A new leisure time tax is placed on suppliers in this market, shifting the supply curve from S_0 to S_1 . The tax incidence is

- A) split equally between consumers and producers, each paying \$1 per bucket.
- B) split equally between consumers and producers, each paying \$2 per bucket.
- C) such that consumers pay \$2 per bucket and producers pay \$1 per bucket.
- D) such that consumers pay \$1 per bucket and producers pay \$2 per bucket.
- E) such that producers pay all of the tax.

Answer: D

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

25) The above figure shows the market for buckets of golf balls at the driving range. A new leisure time tax is placed on suppliers in this market, shifting the supply curve from S_0 to S_1 . The total tax revenue is equal to

- A) \$1,800.
- B) \$600.
- C) \$1,200.
- D) \$900.
- E) \$5,600.

Answer: C

Topic: Tax incidence, government revenue

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

26) The above figure shows the market for buckets of golf balls at the driving range. A new leisure time tax is placed on suppliers in this market, shifting the supply curve from S_0 to S_1 . The quantity of buckets without the tax is _____ and the quantity with the tax is _____.

- A) 400; 600
- B) 600; 400
- C) 400; 400
- D) 800; 500
- E) 600; 500

Answer: B

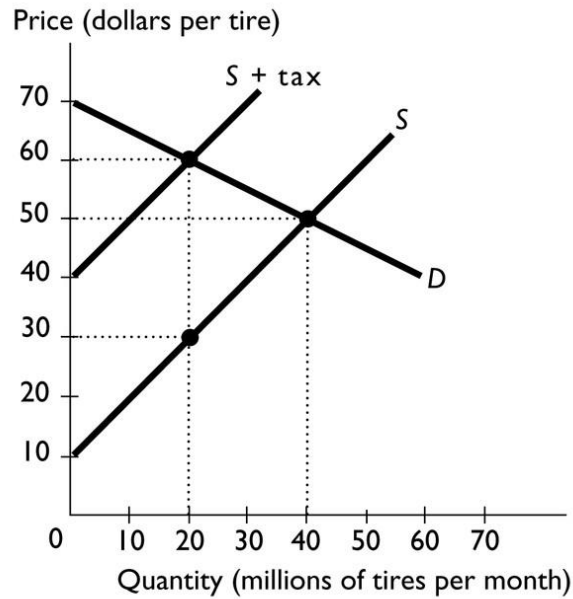
Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning



27) The figure above shows the market for tires. The figure shows that the government has imposed a tax of _____ per tire.

- A) \$10
- B) \$30
- C) \$40
- D) \$60
- E) None of the above answers is correct.

Answer: B

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

28) The figure above shows the market for tires. The figure shows that the government has imposed a tax of _____ per tire and that _____ pay most of the tax.

- A) \$30; buyers
- B) \$40; buyers
- C) \$30; sellers
- D) \$60; sellers
- E) \$60; buyers

Answer: C

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

29) The figure above shows the market for tires. The government has imposed a tax on tires, and the buyers pay _____ of the tax.

- A) \$10
- B) \$20
- C) \$50
- D) \$60
- E) \$30

Answer: A

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

30) The figure above shows the market for tires. The government has imposed a tax on tires, and the sellers pay _____ of the tax.

- A) \$10
- B) \$20
- C) \$50
- D) \$60
- E) \$30

Answer: B

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

31) The figure above shows the market for tires. According to the figure, the government collects _____ per month in total tax revenue

- A) \$600 million
- B) \$1,200 million
- C) \$2,000 million
- D) \$900 million
- E) None of the above answers is correct.

Answer: A

Topic: Tax incidence

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

32) The figure above shows the market for tires. According to the figure, the price elasticity of demand is _____ the price elasticity of supply.

- A) greater than
- B) equal to
- C) less than
- D) not comparable to
- E) More information is needed to determine if the price elasticity of demand is greater than, equal to, less than, or comparable to the price elasticity of supply.

Answer: A

Topic: Tax incidence and the elasticity of supply

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: MR

AACSB: Analytical reasoning

33) For a given supply elasticity, the more inelastic the demand for a good, the larger the share of the tax paid by the

- A) buyers.
- B) sellers.
- C) participants other than the buyers and sellers.
- D) government.
- E) None of the above answers is correct.

Answer: A

Topic: Tax incidence and the elasticity of demand

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

34) If a tax is placed on suppliers of a good, then the incidence of the tax

- A) falls more on the suppliers if demand is elastic.
- B) falls more on the suppliers if demand is inelastic.
- C) is usually split equally between the consumers and the producers.
- D) usually falls more on the producers than the consumers.
- E) usually falls more on the consumers than the producers.

Answer: A

Topic: Tax incidence and the elasticity of demand

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

35) Suppose that the elasticity of demand for insulin is 0.1, the elasticity of demand for oranges is 1.2, and the elasticity of supply for insulin and oranges is 0.4. If the government imposes a 10 percent tax on both insulin and oranges, the decrease in the quantity of oranges is _____ the decrease in the quantity of insulin.

- A) larger than
- B) smaller than
- C) equal to
- D) not comparable to
- E) More information is needed to determine how the decrease in the quantity of oranges compares to the decrease in the quantity of insulin.

Answer: A

Topic: Tax incidence and the elasticity of demand

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: MR

AACSB: Analytical reasoning

36) The demand for insulin is quite inelastic. The demand for Pepsi is quite elastic. Suppose the elasticity of supply for insulin is the same as the elasticity of supply for Pepsi. If a \$0.20 tax was imposed on each of these goods (holding everything else constant), which consumers would pay more of the tax?

- A) the Pepsi consumers
- B) the insulin consumers
- C) There would be no difference in the amount of tax paid by the consumers.
- D) More information is needed to determine which consumers pay more of the tax.
- E) The premise of the question is wrong because the elasticity of demand and the incidence of a tax are not related.

Answer: B

Topic: Tax incidence and the elasticity of demand

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

37) The demand for gasoline is inelastic and the supply of gasoline is elastic. Therefore,

- A) sellers bear most of the incidence of a tax on gasoline.
- B) buyers bear most of the incidence of a tax on gasoline.
- C) the government bears most of the incidence of a tax on gasoline.
- D) the incidence of a tax on gasoline depends if the tax is imposed on sellers or on buyers.
- E) None of the above answers is correct.

Answer: B

Topic: Tax incidence and the elasticity of demand

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

38) The buyers pay all of a tax when the demand is

- A) perfectly elastic.
- B) more elastic than the supply.
- C) more inelastic than the supply.
- D) unit elastic.
- E) perfectly inelastic.

Answer: E

Topic: Tax incidence and the elasticity of demand

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

39) If the demand curve for a good is horizontal, a tax is levied on this product is

- A) split between the buyers and the sellers but not evenly so that either the buyer or the seller pays more.
- B) split evenly between the buyers and the sellers.
- C) paid entirely by buyers.
- D) paid entirely by sellers.
- E) not paid by either the buyers or the sellers.

Answer: D

Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

40) Suppose the demand for specialty car license plates is perfectly inelastic and the supply curve for specialty license plates is upward sloping. A tax is imposed on specialty license plates. Which of the following is true?

- A) Drivers pay the smallest share of the tax.
- B) Drivers pay none of the tax.
- C) Drivers pay all of the tax.
- D) The government pays all of the tax.
- E) The government collects nothing in tax revenues.

Answer: C

Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

- 41) Suppose the elasticity of demand for a product is 0 and elasticity of supply is 1. If the government imposes a tax on the product, then
- A) buyers and sellers pay exactly the same share of the tax.
 - B) buyers pay all of the tax.
 - C) sellers pay all of the tax.
 - D) buyers pay a smaller share of the tax than do sellers but both buyers and sellers pay some of the tax.
 - E) because the elasticity of demand is zero, the government collects no revenue from this tax.

Answer: B

Topic: Tax incidence and the elasticity of demand

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 42) Suppose the demand for Georgia peaches is perfectly elastic. If the supply curve is upward sloping and a tax is imposed on Georgia peaches, then
- A) peach sellers pay all of the tax.
 - B) peach buyers pay all of the tax.
 - C) peach buyers and sellers evenly split the tax.
 - D) the government does not collect any revenue from the tax.
 - E) the tax does not change the equilibrium quantity of peaches.

Answer: A

Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

- 43) If consumers pay more of a tax than do the producers,
- A) demand is more elastic than supply.
 - B) the amount of tax revenue collected by the government is almost zero.
 - C) supply is more elastic than demand.
 - D) the equilibrium price paid by consumers rises by less than half the amount of the tax.
 - E) None of the above answers is correct.

Answer: C

Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

44) If the supply of automobiles becomes more inelastic, then a tax on automobiles is

- A) paid more by the buyers after the change than before.
- B) paid more by the sellers after the change than before.
- C) always split evenly between the buyers and the sellers.
- D) paid more by the government after the change than before.
- E) always paid entirely by the buyers.

Answer: B

Topic: Tax incidence and the elasticity of supply

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

45) For a given elasticity of demand, the less elastic the supply, the

- A) larger the deadweight loss from a tax.
- B) larger the share of a tax paid by the sellers.
- C) greater the burden on the government from a tax.
- D) greater is the excess burden from a tax.
- E) larger the share of a tax paid by the buyers.

Answer: B

Topic: Tax incidence and the elasticity of supply

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

46) Sellers bear the entire incidence of a tax on a good. This outcome can occur if

- A) supply is perfectly inelastic.
- B) the good is an inferior good.
- C) demand is perfectly inelastic.
- D) the demand curve is downward sloping and the supply curve is upward sloping.
- E) supply is perfectly elastic.

Answer: A

Topic: Tax incidence and the elasticity of supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

- 47) Why do suppliers pay all of a tax when supply is perfectly inelastic?
- A) because a perfectly inelastic supply means that the demand is elastic
 - B) because the government requires firms to collect the tax
 - C) because a perfectly inelastic supply means that the quantity supplied is quite sensitive to a change in price
 - D) because a perfectly inelastic supply means that suppliers will produce the same amount regardless of the price
 - E) because in this case the price of the good that suppliers receive and keep does not change

Answer: D

Topic: Tax incidence and the elasticity of supply

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

- 48) Suppose the elasticity of supply of land is 0 and elasticity of demand is 2. If the government imposes a 10 percent tax on land, then
- A) buyers and sellers each pay 5 percent of the tax.
 - B) buyers pay all of the tax.
 - C) sellers pay all of the tax.
 - D) sellers pay a smaller share of the tax than do buyers but both buyers and sellers pay some of the tax.
 - E) buyers pay 1/2 of the tax.

Answer: C

Topic: Tax incidence and the elasticity of supply

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 49) The supply of sand is perfectly inelastic and the demand curve for sand is downward sloping. Hence, if a tax on sand is imposed,
- A) sand buyers pay the entire tax.
 - B) sand sellers pay the entire tax.
 - C) the tax is split evenly between the buyers and sellers.
 - D) the government pays the entire tax.
 - E) the government collects no tax revenue because the supply is perfectly inelastic.

Answer: B

Topic: Tax incidence and the elasticity of supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

- 50) Suppose the supply of apartments in Minneapolis is perfectly elastic. The effect of a \$100 per month tax on all apartments is that
- A) landlords pay none of the tax and there is a surplus of apartments.
 - B) landlords pay all of the tax and suffer all of the deadweight loss.
 - C) landlords pay all of the tax and no changes take place in the quantity of apartments supplied.
 - D) renters pay all of the tax.
 - E) the government collects no tax revenue because the supply is perfectly elastic.

Answer: D

Topic: Tax incidence and the elasticity of supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

- 51) If the government eliminates a tax on a good with a perfectly elastic supply, who benefits most?

- A) buyers
- B) sellers
- C) buyers if the demand is also perfectly elastic, otherwise sellers
- D) buyers if the demand is unit elastic, otherwise sellers
- E) buyers and sellers benefit equally

Answer: A

Topic: Tax incidence and the elasticity of supply

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

- 52) If the elasticity of demand for a product equals 3 and the supply is perfectly elastic, then if a tax is imposed on this product,

- A) the buyer pays all the tax.
- B) the seller pays all the tax.
- C) the buyer pays $\frac{3}{4}$ of the tax.
- D) the seller pays $\frac{3}{4}$ of the tax.
- E) the buyer pays $\frac{4}{3}$ of the tax.

Answer: A

Topic: Tax incidence and the elasticity of supply

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 53) The loss to society resulting from a tax includes the
- A) deadweight loss.
 - B) consumer surplus paid to the government in the form of tax revenue.
 - C) producer surplus paid to the government in the form of tax revenue.
 - D) deadweight loss plus the consumer surplus and producer surplus paid to the government as tax revenue.
 - E) deadweight loss minus the tax revenue collected by the government.

Answer: A

Topic: Taxes, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

- 54) The inefficiency of a sales tax on a good is ultimately the result of the
- A) low tax revenue earned by the government relative to the cost of collection.
 - B) wedge between what buyers pay for the good and what sellers receive for the good.
 - C) buyers being unable to avoid paying the tax.
 - D) sellers being unable to avoid paying the tax.
 - E) increase in the consumer surplus that is more than offset by the decrease in the producer surplus.

Answer: B

Topic: Taxes, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

- 55) A tax
- A) places a wedge between the price paid by the buyers and the price received by the sellers.
 - B) reduces consumer surplus and producer surplus.
 - C) decreases government spending.
 - D) Both answers A and B are correct.
 - E) None of the above answers are correct.

Answer: D

Topic: Taxes, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

56) When a tax is imposed on a good, at the after-tax equilibrium the marginal benefit of the last unit produced _____ the marginal cost.

- A) equals
- B) is greater than
- C) is less than
- D) can be calculated but is not comparable to
- E) The premise of the question is incorrect because after a tax is imposed, it becomes impossible to determine the marginal benefit and the marginal cost.

Answer: B

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

57) When a tax is imposed on a good or a service, the marginal benefit of the last unit bought _____ the marginal cost of the last unit.

- A) is equal to
- B) is greater than
- C) is less than
- D) None of the above answers is correct because there is no consistent relationship between the marginal benefit of the last unit and its marginal cost.
- E) is not able to be compared to

Answer: B

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

58) If neither the demand nor supply of a good is perfectly elastic or inelastic, a tax on the good _____ consumer surplus and _____ producer surplus.

- A) decreases; decreases
- B) increases; increases
- C) decreases; increases
- D) increases; decreases
- E) decreases; does not change

Answer: A

Topic: Taxes, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

- 59) When a product is taxed,
- A) part of the initial consumer surplus goes to the government as revenue.
 - B) part of the initial consumer surplus becomes a deadweight loss.
 - C) the producer surplus never changes because consumers pay taxes, not producers.
 - D) Both answers A and B are correct.
 - E) Both answers B and C are correct.

Answer: D

Topic: Taxes, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 60) The size of the deadweight loss, or excess burden, of a tax depends on the
- A) amount of producer surplus but not the amount of consumer surplus because it is the producers who send the tax revenues to the government.
 - B) strength of demand.
 - C) strength of supply.
 - D) elasticities of demand and supply.
 - E) number of demanders and the number of suppliers.

Answer: D

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

- 61) When a tax is imposed on a good or service, the
- A) revenue gained by the government is the excess burden.
 - B) deadweight loss that arises from a tax is the excess burden.
 - C) share of the tax paid by the buyer is the excess burden.
 - D) share of the tax paid by the seller is the excess burden.
 - E) amount the government collects as tax revenue is the deadweight loss from the tax.

Answer: B

Topic: Deadweight loss, excess burden

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 62) The excess burden of a tax refers to the fact that
- A) the benefits from a tax exceed the tax revenue.
 - B) the deadweight loss from a tax exceeds the remaining consumer surplus.
 - C) marginal cost is greater than marginal benefit after the tax.
 - D) a tax creates a deadweight loss.
 - E) taxes are split between buyers and sellers.

Answer: D

Topic: Deadweight loss, excess burden

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

- 63) The deadweight loss from a tax
- A) is the tax revenue the government collects when people die.
 - B) is the split of a tax between the amount paid and the amount collected.
 - C) equals the amount collected as revenue from the tax.
 - D) is called the excess burden of the tax.
 - E) equals the amount collected as revenue from the tax plus the excess burden of the tax.

Answer: D

Topic: Deadweight loss, excess burden

Skill: Level 1: Definition

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

- 64) The deadweight loss of a tax
- A) is the transfer of income from households to the government.
 - B) determines the incidence of a tax.
 - C) is part of the total burden of a tax.
 - D) is greater than the total burden of a tax.
 - E) equals the tax revenue collected by the government.

Answer: C

Topic: Deadweight loss, excess burden

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: SA

AACSB: Analytical reasoning

65) Suppose the elasticity of demand for Mexican food is 3.00 and the elasticity of supply is 1.20. If the government imposes a sales tax on Mexican food, which of the following occurs?

- i. Less Mexican food is purchased by buyers.
- ii. Less Mexican food is produced by sellers.
- iii. The government receives the excess burden as revenue.
- iv. Both the consumer and the producer surplus decrease.

- A) i and ii
- B) iii only
- C) i, ii, and iv
- D) iv only
- E) i, ii, iii, and iv

Answer: C

Topic: Deadweight loss, excess burden

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning



Figure A

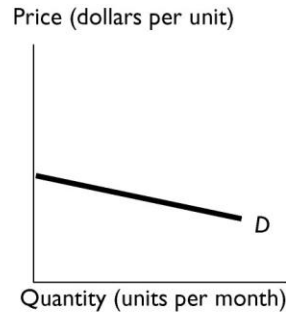


Figure B

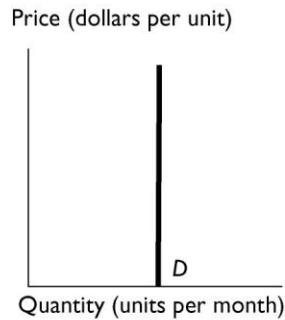


Figure C

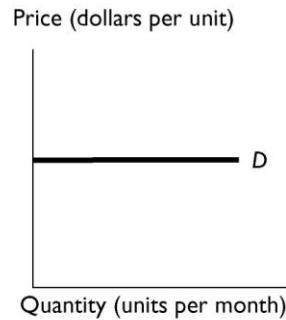


Figure D

66) The above figure shows the demand curves in four different markets. If each of the markets has an identical upward sloping supply curve and the same tax is levied on suppliers, which market would produce the smallest amount of deadweight loss?

- A) A
- B) B
- C) C
- D) D
- E) C and D

Answer: C

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

67) The above figure shows the demand curves in four different markets. If each of the markets has an identical upward sloping supply curve and the same tax is levied on suppliers, which market would produce the largest amount of deadweight loss?

- A) A
- B) B
- C) C
- D) D
- E) C and D

Answer: D

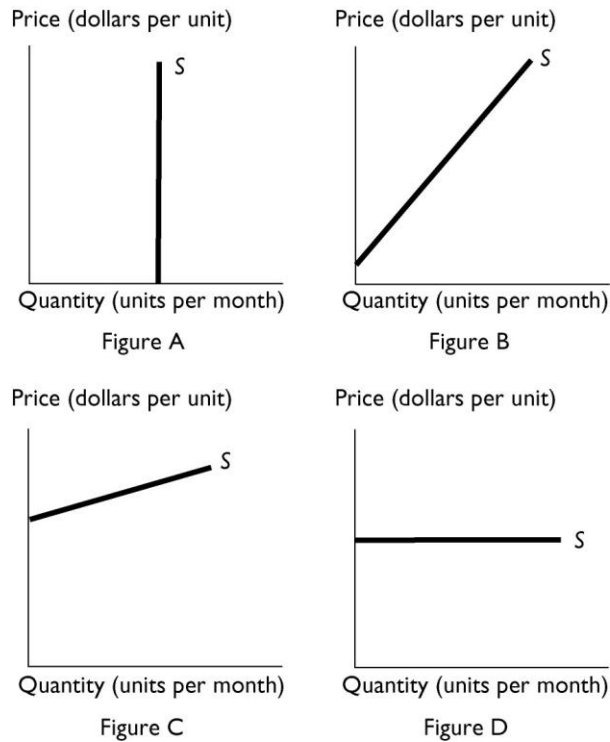
Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning



68) The above figure shows the supply curves in four different markets. If each of the markets has an identical downward sloping demand curve and the same tax is levied on suppliers, which market would produce the smallest amount of deadweight loss?

- A) A
- B) B
- C) C
- D) D
- E) A and D

Answer: A

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

69) The above figure shows the supply curves in four different markets. If each of the markets has an identical downward sloping demand curve and the same tax is levied on suppliers, which market would produce the largest amount of deadweight loss?

- A) A
- B) B
- C) C
- D) D
- E) A and D

Answer: D

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: KG

AACSB: Analytical reasoning

70) Tax incidence refers to

- A) how government taxes are spent by the government.
- B) the incidences of tax revolts by the taxpayers.
- C) the amount of a tax minus its burden.
- D) the division of the burden of a tax between the buyer and the seller.
- E) tax revenue minus excess burden.

Answer: D

Topic: Tax incidence

Skill: Level 1: Definition

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning

71) If a \$1 sales tax is imposed on the sale of a CD, and neither the demand nor the supply is perfectly elastic or perfectly inelastic, then the price of a CD paid by consumers will

- A) increase by \$1 and fewer CDs will be bought.
- B) increase by less than \$1 and fewer CDs will be bought.
- C) not change and the same number of CDs will be bought.
- D) increase by \$1 and the same number of CDs will be bought.
- E) increase by more than \$1 and fewer CDs will be bought.

Answer: B

Topic: Tax incidence

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning

72) Neither the supply of nor demand for a good is perfectly elastic or perfectly inelastic. So, imposing a tax on the good results in a _____ in the price paid by buyers and _____ in the equilibrium quantity.

- A) rise; an increase
- B) rise; a decrease
- C) fall; an increase
- D) fall; a decrease
- E) a rise; no change

Answer: B

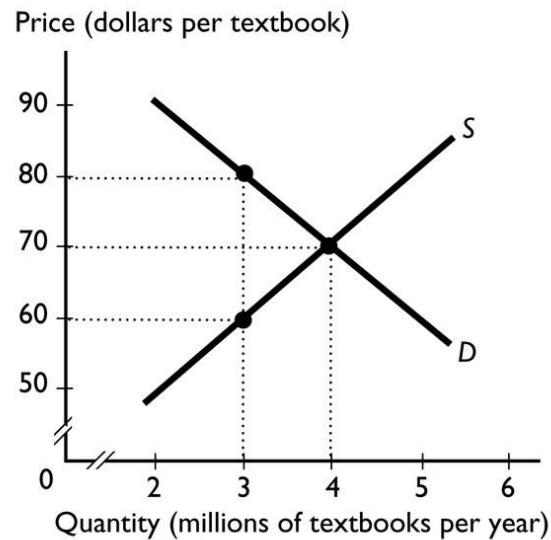
Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning



73) The graph shows the market for textbooks. If the government introduces a tax of \$20 a textbook, then the price paid by buyers _____.

- A) increases by \$20
- B) increases to \$80 a textbook
- C) decreases to \$60 a textbook
- D) is \$70 a textbook
- E) does not change because the demand for textbooks is perfectly elastic

Answer: B

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning

74) Neither the supply of nor demand for a good is perfectly elastic or perfectly inelastic. So, imposing a tax on the good results in a _____ in the price received and kept by sellers and a _____ in the price paid by buyers.

- A) rise; rise
- B) rise; fall
- C) fall; rise
- D) fall; fall
- E) no change; rise

Answer: C

Topic: Tax incidence, price wedge

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning

75) Suppose the demand for barley is perfectly elastic. The supply curve of barley is upward sloping. If a tax is imposed on barley,

- A) barley sellers pay the entire tax.
- B) barley buyers pay the entire tax.
- C) the government pays the entire tax.
- D) the tax is split evenly between barley buyers and sellers.
- E) who pays the tax depends on whether the government imposes the tax on barley sellers or on barley buyers.

Answer: A

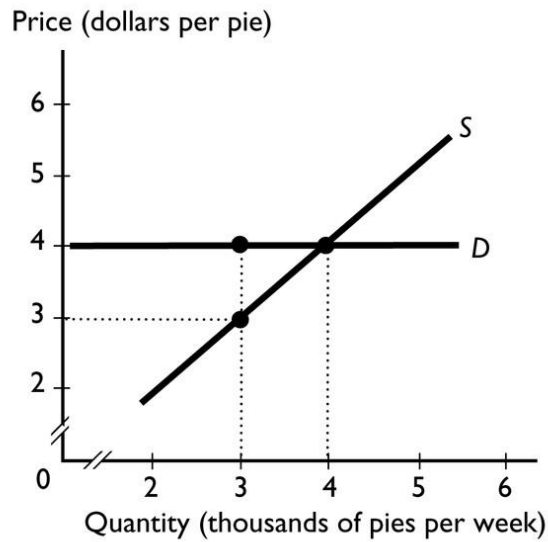
Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning



76) The demand for apple pies is perfectly elastic. If the government taxes apple pies at \$1 a pie, then _____.

- A) the seller pays the entire tax
- B) the buyer pays the entire tax
- C) the seller and the buyer split the tax evenly
- D) the seller and the buyer split the tax but the seller pays more
- E) who pays the tax depends on whether the government imposes the tax on pie buyers or on pie sellers

Answer: A

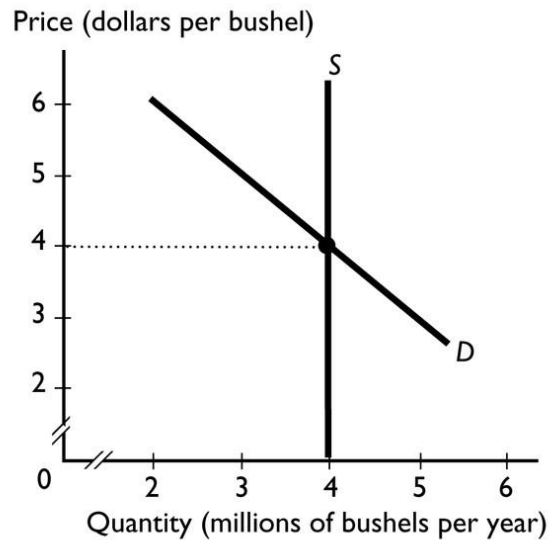
Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning



77) At harvest time the supply of wheat is perfectly inelastic. If the government taxes wheat at \$1 a bushel, then

- A) the seller pays the entire tax.
- B) the buyer pays the entire tax.
- C) the seller and the buyer split the tax evenly.
- D) the seller and the buyer split the tax but the seller pays more.
- E) no one pays the tax because the wheat must be harvested or it will go to waste.

Answer: A

Topic: Tax incidence and the elasticity of supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning

78) To determine who bears the greater share of a tax, we compare the

- A) number of buyers to the number of sellers.
- B) elasticity of supply to the elasticity of demand.
- C) size of the tax to the price of the good.
- D) government tax revenue to the revenue collected by the suppliers.
- E) pre-tax quantity to the post-tax quantity.

Answer: B

Topic: Tax incidence and the elasticity of demand and supply

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning

79) The supply of oil is more elastic than the demand for oil. If oil is taxed \$10 per barrel, how will the tax be divided between the buyer and seller?

- A) The seller will pay more of the tax than the buyer pays.
- B) The buyer will pay more of the tax than the seller pays.
- C) The seller and buyer will split the tax evenly.
- D) The seller will pay the entire tax.
- E) The buyer will pay the entire tax.

Answer: B

Topic: Tax incidence and the elasticity of demand and supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning

80) The buyer will pay the entire tax levied on a good when the demand for the good is _____ or when the supply of the good is _____.

- A) perfectly elastic; perfectly inelastic
- B) perfectly elastic; perfectly elastic
- C) perfectly inelastic; perfectly inelastic
- D) perfectly inelastic; perfectly elastic
- E) unit elastic; unit elastic

Answer: D

Topic: Tax incidence and the elasticity of demand and supply

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning

81) A sales tax imposed on tires _____ consumer surplus and _____ producer surplus.

- A) increases; increases
- B) increases; decreases
- C) decreases; increases
- D) decreases; decreases
- E) does not change; does not change

Answer: D

Topic: Taxes, deadweight loss

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning

- 82) If a tax is placed on tires, then
- i. the equilibrium quantity of tires will decrease.
 - ii. a deadweight loss will be created.
 - iii. the producer surplus will decrease.

- A) i only
- B) ii only
- C) i and iii
- D) i and ii
- E) i, ii, and iii

Answer: E

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning

- 83) The deadweight loss from a tax is called the

- A) marginal benefit of the tax.
- B) marginal cost of the tax.
- C) excess burden of the tax.
- D) net gain from taxation.
- E) net loss from taxation.

Answer: C

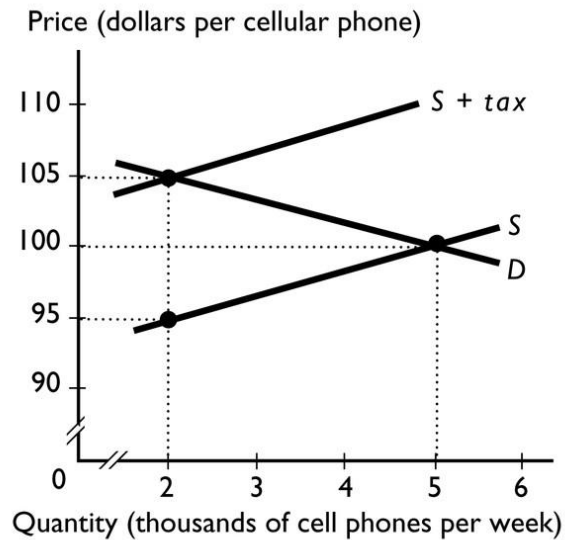
Topic: Deadweight loss, excess burden

Skill: Level 1: Definition

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning



84) The graph shows the market for cell phones. The government imposes a sales tax on cell phones at \$10 a cell phone. The excess burden of the sales tax on cell phones is _____.

- A) \$20,000
- B) \$15,000
- C) \$35,000
- D) \$7,500
- E) \$30,000

Answer: B

Topic: Deadweight loss, excess burden

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: MyEconLab Web Site

AACSB: Analytical reasoning

85) A sales tax creates a deadweight loss because

- A) there is some paperwork opportunity cost of sellers paying the sales tax.
- B) demand and supply both decrease.
- C) less is produced and consumed.
- D) citizens value government goods less than private goods.
- E) the government spends the tax revenue it collects.

Answer: C

Topic: Taxes, deadweight loss

Skill: Level 4: Applying models

Section: Checkpoint 7.1

Status: STUDY GUIDE

AACSB: Analytical reasoning

7.2 Price Ceilings

- 1) A price ceiling
- A) is an illegal price.
 - B) is the price that exists in a black market.
 - C) is the maximum price that can legally be charged.
 - D) Both answers A and B are correct.
 - E) Both answers B and C are correct.

Answer: C

Topic: Price ceiling

Skill: Level 1: Definition

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

- 2) A price ceiling is
- A) a maximum legal price.
 - B) a minimum legal price.
 - C) an equilibrium price.
 - D) a market-determined price.
 - E) the highest price at which the quantity demanded equals the quantity supplied.

Answer: A

Topic: Price ceiling

Skill: Level 1: Definition

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

- 3) If a price ceiling is set above the equilibrium price, then
- A) there will be a surplus of the good.
 - B) there will be a shortage of the good.
 - C) there will be neither a shortage nor a surplus of the good.
 - D) the price ceiling will generate revenue for the government.
 - E) the price ceiling affects suppliers but not demanders.

Answer: C

Topic: Price ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

4) When a price ceiling below the equilibrium price is imposed on a good, production of the good

A) increases.

B) decreases.

C) does not change.

D) is frozen at the pre-ceiling level.

E) either increases or decreases depending on whether the supply of the good increases or decreases when the price ceiling is imposed.

Answer: B

Topic: Price ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

5) A price ceiling in the market for fuel oil that is below the equilibrium price will

A) lead to the quantity supplied of fuel oil exceeding the quantity demanded.

B) lead to the quantity demanded of fuel oil exceeding the quantity supplied.

C) decrease the demand for fuel oil.

D) increase the supply of fuel oil.

E) have no effect in the market for fuel oil.

Answer: B

Topic: Price ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

Price (dollars per slice of pizza)	Quantity supplied (slices of pizza per week)	Quantity demanded (slices of pizza per week)
1	10	50
2	20	40
3	30	30
4	40	20
5	50	10

6) The demand and supply schedules for pizza are in the table above. A price ceiling of \$2 per slice results in

- A) a surplus of 20 slices of pizza.
- B) a shortage of 20 slices of pizza.
- C) a shortage of 40 slices of pizza.
- D) a shortage of 60 slices of pizza.
- E) neither a shortage nor a surplus.

Answer: B

Topic: Price ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

7) The demand and supply schedules for pizza are in the table above. A price ceiling of \$4 per slice results in

- A) a surplus of 20 slices of pizza.
- B) a shortage of 20 slices of pizza.
- C) a shortage of 40 slices of pizza.
- D) a shortage of 60 slices of pizza.
- E) neither a shortage nor a surplus.

Answer: E

Topic: Price ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

8) The demand and supply schedules for pizza are in the table above. If the government sets a maximum legal price of \$2 per slice of pizza, then

- A) there is a shortage of 20 slices of pizza.
- B) this maximum price is an example of a price floor.
- C) this maximum price is an example of a price ceiling.
- D) Both answers A and C are correct.
- E) Both answers B and C are correct.

Answer: D

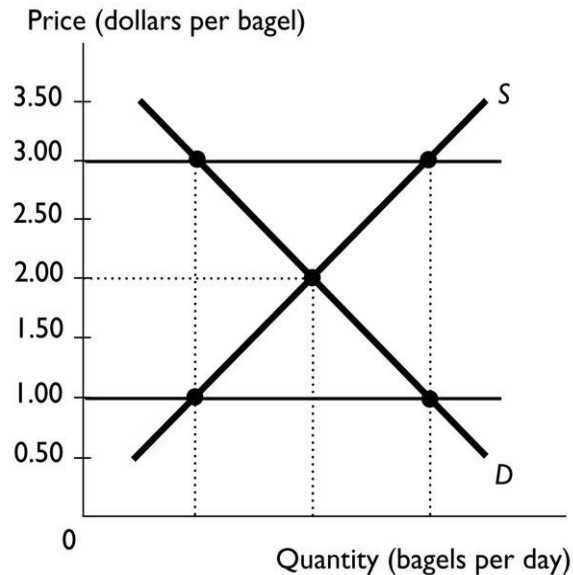
Topic: Price ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning



9) The figure above illustrates the bagel market. Which of the following statements is correct?

- A) With a price ceiling of \$1.00 per bagel, the quantity demanded is equal to the quantity supplied.
- B) With a price ceiling of \$3.00 per bagel, the quantity demanded is greater than the quantity supplied.
- C) With a price ceiling of \$1.00 per bagel, there is a shortage of bagels.
- D) Answers A and B are correct.
- E) Answers B and C are correct.

Answer: C

Topic: Price ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

10) The figure above illustrates the bagel market. Which of the following statements is correct?

- A) With a price ceiling of \$1.00 per bagel, the price of a bagel is \$1.
- B) With a price ceiling of \$3.00 per bagel, the price of a bagel is \$2.
- C) With no government intervention, the equilibrium price of a bagel is \$2.
- D) Only answers A and B are correct.
- E) Answers A, B, and C are correct.

Answer: E

Topic: Price ceiling

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

11) In a housing market with no rent ceilings, the equilibrium rent is that for which the quantity of apartments demanded

- A) equals the quantity supplied.
- B) is greater than the quantity supplied.
- C) is less than the quantity supplied.
- D) might be greater than, equal to, or less than the quantity supplied depending on whether the supply curve is upward sloping, horizontal, or vertical.
- E) None of the above answers is correct because without rent ceilings there is no equilibrium rent.

Answer: A

Topic: Rent ceiling

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

12) A rent ceiling set below the equilibrium rent

- A) ensures the availability of enough low-rent apartments in a city.
- B) results in all renters and potential renters being better off.
- C) creates a situation in which the quantity demanded of housing is greater than quantity supplied.
- D) ensures that landlords earn a reasonable rate of profit on apartments.
- E) eliminates discrimination by landlords.

Answer: C

Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

13) A rent ceiling set below the equilibrium rent decreases the quantity of housing supplied because

- A) landlords of previously barely profitable apartments refuse to rent them.
- B) the supply of housing increases.
- C) fewer tenants will search for housing.
- D) demand for housing will increase.
- E) the supply curve of housing immediately shifts leftward.

Answer: A

Topic: Rent ceiling, shortage

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

14) A housing shortage results when

- A) a tax is imposed on housing.
- B) a rent ceiling below the equilibrium rent is imposed.
- C) a rent ceiling above the equilibrium rent is imposed.
- D) rents rise.
- E) a rent floor below the equilibrium rent is imposed.

Answer: B

Topic: Rent ceiling, shortage

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

15) Suppose the equilibrium rent in Denver is \$1,050. A rent ceiling of \$755 per month leads to

- A) a surplus of apartments in Denver.
- B) a shortage of apartments in Denver.
- C) no change in the Denver apartment market.
- D) fair prices in the Denver market.
- E) compared to the situation at the equilibrium rent, a decrease in the quantity of apartments demanded and an increase in the quantity of apartments supplied.

Answer: B

Topic: Rent ceiling, shortage

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

- 16) Suppose the equilibrium rent in Boston is \$1,500. A rent ceiling of \$1,600 per month leads to
- A) a surplus of apartments in Boston.
 - B) a shortage of apartments in Boston.
 - C) no change in the Boston apartment market.
 - D) fair prices in the Boston apartment market.
 - E) compared to the situation at the equilibrium rent, a decrease in the quantity of apartments demanded and an increase in the quantity of apartments supplied.

Answer: C

Topic: Rent ceiling, shortage

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

- 17) With a rent ceiling set below the equilibrium rent,
- i. all renters are able to rent apartments at a lower rent.
 - ii. there is a shortage of apartments.
 - iii. the quantity of apartments supplied does not change because buildings cannot be moved.

A) i only

B) ii only

C) iii only

D) ii and iii

E) i, ii, and iii

Answer: B

Topic: Rent ceiling, shortage

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

- 18) Which of the following is an impact of a rent ceiling set below the equilibrium rent?
- A) Renters find apartments to rent more rapidly because the rent ceiling is lower.
 - B) Landlords' incentives to provide apartments decrease.
 - C) The supply of apartments increases as soon as the rent ceiling is imposed.
 - D) A surplus of housing occurs.
 - E) Search for apartments decreases because renters need no longer search for the apartment with the lowest rent.

Answer: B

Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

19) If a rent ceiling is below the equilibrium rent, some allocation scheme must be used. The allocation methods include all of the following EXCEPT

- A) charging the equilibrium rent.
- B) refusing to rent to individuals on the basis of sex, race, or some other attribute.
- C) requiring a payment, such as key money, in addition to the rent.
- D) the creation of a black market.
- E) increased search activity.

Answer: A

Topic: Rent ceiling, allocation

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

20) Which of the following results from a price ceiling?

- i. increased search activity
 - ii. surplus
 - iii. black market
- A) i only
 - B) i and iii
 - C) ii and iii
 - D) i, ii, and iii
 - E) ii only

Answer: B

Topic: Price ceiling, search and black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: CD

AACSB: Analytical reasoning

21) An illegal market in which the price exceeds a legally imposed price ceiling is called a

- A) shortage market.
- B) surplus market.
- C) black market.
- D) fair market.
- E) subsidized market.

Answer: C

Topic: Price ceiling, black market

Skill: Level 1: Definition

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

22) A black market

- A) is legal only when it is associated with government price ceilings.
- B) is defined as the deadweight loss associated with taxes.
- C) benefits no one.
- D) is a potential outcome of a price ceiling.
- E) is always legal.

Answer: D

Topic: Price ceiling, black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

23) A price ceiling

- A) creates market efficiency by making a good cheaper.
- B) helps all producers by increasing the price of the good.
- C) can create a black market for the good.
- D) reduces search activity.
- E) benefits all people who want to buy the good.

Answer: C

Topic: Price ceiling, black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: CD

AACSB: Analytical reasoning

24) A rent ceiling below the equilibrium rent

- A) increases the quantity of housing supplied.
- B) is an example of a price floor.
- C) has no effect on the housing market because the ceiling is below the equilibrium.
- D) can create a black market.
- E) limits search because people need no longer search for cheap apartments.

Answer: D

Topic: Rent ceiling, black market

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

25) A black market for housing exists because of a rent ceiling. The rent for housing in the black market is

- A) the same as the equilibrium rent.
- B) lower than the ceiling rent.
- C) somewhere between the ceiling rent and the maximum rent a tenant is willing to pay.
- D) somewhere between zero and the equilibrium rent.
- E) not defined because the market is not legal.

Answer: C

Topic: Rent ceiling, black market

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

26) Black markets occur when price ceilings are imposed in a market. Which of the following explains why sellers participate in a black market?

- A) Sellers are able to sell the product for a higher than legal price.
- B) There are more buyers in the black market than in the legal market.
- C) The demand is perfectly elastic in a black market.
- D) There is no good reason why sellers participate in a black market.
- E) The demand is perfectly inelastic in a black market.

Answer: A

Topic: Rent ceiling, black market

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

27) When a rent ceiling law is passed in a city, which of the following occurs?

- A) The total price of renting an apartment decreases to all renters.
- B) The quantity of apartments supplied does not change.
- C) Some landlords and renters use methods such as "key money" to get around the rent ceiling law.
- D) Renters have no trouble finding a nice, reasonably priced apartment to rent.
- E) Generally the number of renters in the city increases because people move to the city to take advantage of the low-rent apartments.

Answer: C

Topic: Rent ceiling, black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

- 28) One of the consequences of a rent ceiling set below the equilibrium rent is
- A) decreased search activity.
 - B) increased search activity.
 - C) the establishment of landlord unions.
 - D) surpluses of apartments.
 - E) the elimination of the deadweight loss that would otherwise exist in the housing market.

Answer: B

Topic: Rent ceiling, search

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

- 29) The opportunity cost of an apartment in a rent controlled market is equal to
- A) the rent charged for the apartment.
 - B) the opportunity cost of searching for the apartment.
 - C) the rent charged for the apartment plus the opportunity cost of searching for the apartment.
 - D) nothing because of the surplus of apartments when there are rent controls.
 - E) the rent charged for the apartment minus the opportunity cost of searching for the apartment.

Answer: C

Topic: Rent ceiling, search

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

- 30) A rent ceiling in a housing market
- A) makes all rents lower than the ceiling illegal to charge.
 - B) is set above the equilibrium rent in order to have an effect.
 - C) increases the time people spend searching for housing.
 - D) Both answers B and C are correct.
 - E) Both answers A and C are correct.

Answer: C

Topic: Rent ceiling, search

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

31) In a housing market with a rent ceiling below the equilibrium rent, apartment seekers spend more time searching for an apartment than they would in a housing market without a rent ceiling. Why does this difference exist?

- A) In the market with the rent ceiling, renters are searching for the best buy in apartments.
- B) In the market with the rent ceiling, there is a wide variety in the quality of apartments for rent.
- C) In the market with the rent ceiling, the quantity of housing demanded is greater than quantity supplied at the ceiling price.
- D) The premise of the question is incorrect because people spend less time searching with a rent ceiling since they no longer need to look for a low-priced apartment.
- E) The premise of the question is incorrect because there is no difference in the search time between a market with a rent ceiling and one without a ceiling.

Answer: C

Topic: Rent ceiling, search

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

32) In a market with a rent ceiling set below the equilibrium rent, the producer and consumer surplus

- A) both increase.
- B) both decrease but generally not to zero.
- C) do not change.
- D) are eliminated.
- E) are both totally converted into deadweight loss.

Answer: B

Topic: Rent ceiling, efficiency

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

33) Which of the following decrease the deadweight loss from a rent ceiling set below the equilibrium rent?

- i. lowering the ceiling
- ii. dedicating more resources to enforcement of the ceiling
- iii. raising the ceiling

- A) i only
- B) ii only
- C) iii only
- D) i and ii
- E) ii and iii

Answer: C

Topic: Rent ceiling, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

34) People who benefit from a rent ceiling include

- A) all landlords.
- B) taxpayers.
- C) tenants who have a rent-controlled apartment.
- D) potential tenants, that is, people looking for apartments.
- E) all landlords and some tenants.

Answer: C

Topic: Rent ceiling, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

35) When a rent ceiling below the equilibrium rent is put in place, the outcome is

- A) efficient because marginal benefit equals marginal cost.
- B) inefficient because marginal benefit equals marginal cost.
- C) inefficient because marginal benefit is greater than marginal cost.
- D) inefficient because marginal benefit is less than marginal cost.
- E) efficient because marginal benefit is greater than marginal cost.

Answer: C

Topic: Rent ceiling, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

36) Assuming that the rent ceiling is strictly enforced so that there is no black market, which of the following statements about a housing market with a rent ceiling set below the equilibrium rent is correct?

- A) The rent for housing equals the ceiling rent or higher.
- B) There is excess supply of housing.
- C) The rent ceiling increases the amount of producers' surplus.
- D) The rent ceiling creates a deadweight loss.
- E) The rent ceiling enforces efficiency upon the housing market.

Answer: D

Topic: Rent ceiling, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

37) The deadweight loss in a housing market with a rent ceiling set below the equilibrium rent is the

- A) loss to those who cannot find apartments and the gain to landlords who charge black market rents.
- B) loss to those who cannot find apartments and the loss to landlords who cannot offer housing at the lower rent ceiling.
- C) loss to landlords and the gain to tenants who pay a fairer rent.
- D) loss to tenants and the gain to landlords who have the incentive to offer more apartments for rent.
- E) gain to landlords and to tenants because now a fairer rent is charged.

Answer: B

Topic: Rent ceiling, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

38) Rent ceilings set below the equilibrium rent

- i. create a deadweight loss.
- ii. increase search activity.
- iii. encourage landlords to charge a high price for new locks and keys, called "key money."

- A) i only
- B) ii only
- C) i and iii
- D) i and ii.
- E) i, ii, and iii

Answer: E

Topic: Rent ceiling, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

39) The deadweight loss from a rent ceiling below the equilibrium rent is smallest when the supply of housing is

- A) perfectly elastic.
- B) elastic but not perfectly elastic.
- C) unit elastic.
- D) inelastic but not perfectly inelastic.
- E) perfectly inelastic.

Answer: E

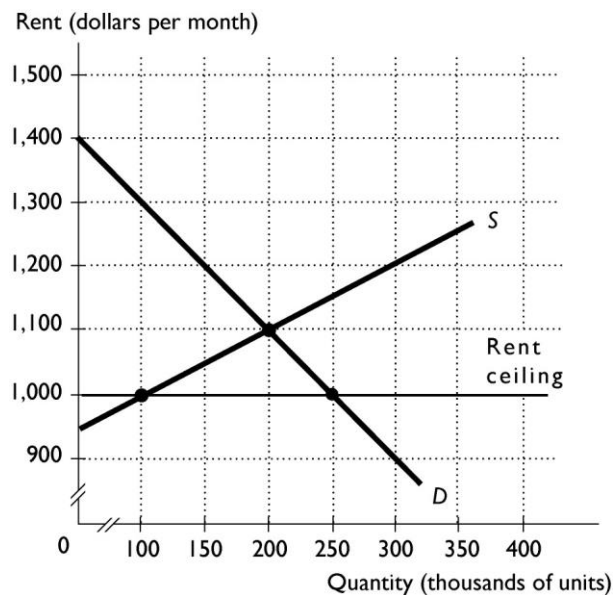
Topic: Rent ceiling, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: MR

AACSB: Analytical reasoning



40) The above figure shows the market for 2 bedroom townhomes in San Diego. If a rent ceiling is set at \$1,000 per month then there is a

- A) surplus equal to 150,000 townhomes.
- B) shortage equal to 100,000 townhomes.
- C) surplus equal to 100,000 townhomes.
- D) shortage equal to 150,000 townhomes.
- E) shortage equal to 250,000 townhomes.

Answer: D

Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

41) The above figure shows the market for 2 bedroom townhomes in San Diego. If a rent ceiling is set at \$1,000 per month, what is true?

- A) The quantity of townhomes demanded decreases to 100,000.
- B) Black market rents might be as high as \$1,300 per month.
- C) The quantity of townhomes supplied increases to 250,000.
- D) More townhomes are rented after the rent ceiling than before.
- E) The quantity demanded of townhomes is less than the quantity supplied.

Answer: B

Topic: Rent ceiling, black market

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

42) The above figure shows the market for 2 bedroom townhomes in San Diego. If a rent ceiling is set at \$1,000 per month, what is the maximum rent someone is willing to pay in the black market?

- A) \$1,300 per month
- B) \$1,000 per month
- C) \$900 per month
- D) \$1,100 per month
- E) \$1,400 per month

Answer: A

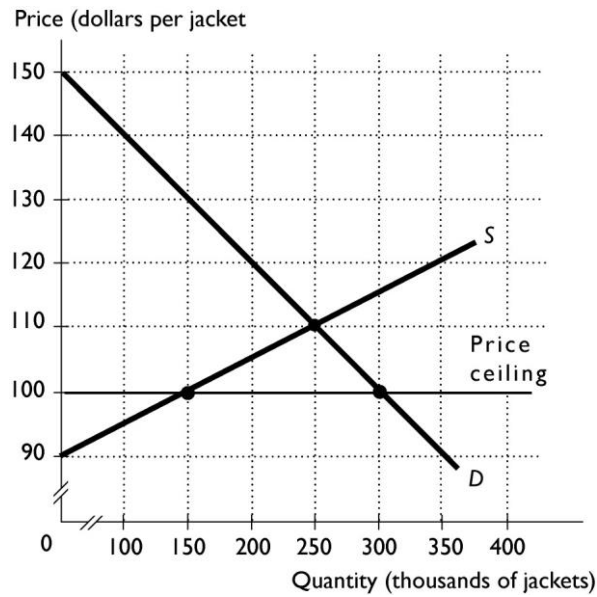
Topic: Rent ceiling, black market

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning



- 43) The above figure shows the market for winter jackets. In an effort to keep the nation warm, the president places a price ceiling of \$100 in the market for winter jackets. As a result, there is a
- A) shortage equal to 150,000 jackets.
 - B) surplus equal to 150,000 jackets.
 - C) surplus equal to 300,000 jackets.
 - D) shortage equal to 250,000 jackets.
 - E) shortage equal to 100,000 jackets.

Answer: A

Topic: Price ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

44) The above figure shows the market for winter jackets. In an effort to keep the nation warm, the president places a price ceiling of \$100 in the market for winter jackets. Which of the following statements is true?

- A) After taking account of the resources lost in search, consumer surplus increases when the price ceiling is in place.
- B) There will be a surplus of jackets.
- C) Because the price of a jacket is lowered, consumers end up buying more jackets with the price ceiling than without it.
- D) Producer surplus decreases if there is a price ceiling.
- E) The quantity supplied of jackets is greater than quantity demanded when there is a price ceiling.

Answer: D

Topic: Price ceiling, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

45) The above figure shows the market for winter jackets. In an effort to keep the nation warm, the president places a price ceiling of \$100 in the market for winter jackets. What would be the maximum price someone would pay in the black market?

- A) \$100 per jacket
- B) \$120 per jacket
- C) \$130 per jacket
- D) \$90 per jacket
- E) \$140 per jacket

Answer: C

Topic: Price ceiling, black market

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

46) The above figure shows the market for winter jackets. In an effort to keep the nation warm, the president places a price ceiling of \$100 in the market for winter jackets. When the price ceiling is in place and taking account of the resources lost in search, consumer surplus _____ and producer surplus _____ compared to the equilibrium before the price ceiling was imposed.

- A) decreases; increases
- B) decreases; decreases
- C) increases; increases
- D) increases; decreases
- E) does not change; increases

Answer: B

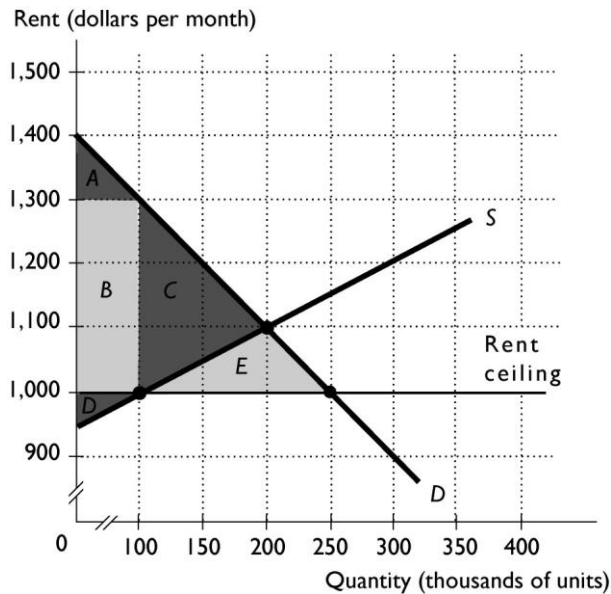
Topic: Price ceiling, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning



47) The above figure shows a housing market with a rent ceiling equal to \$1,000. In this figure, after taking account of the resources lost in search, what area is equal to the consumer surplus?

- A) area A
- B) area B
- C) area C
- D) area D
- E) area E

Answer: A

Topic: Rent ceiling, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

48) The above figure shows a housing market with a rent ceiling equal to \$1,000. In this figure, what area is equal to the producer surplus?

- A) area *A*
- B) area *B*
- C) area *C*
- D) area *D*
- E) area *E*

Answer: D

Topic: Rent ceiling, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

49) The above figure shows a housing market with a rent ceiling equal to \$1,000. In this figure, what area is equal to the deadweight loss?

- A) area *A*
- B) area *B*
- C) area *C*
- D) area *D*
- E) area *E*

Answer: C

Topic: Rent ceiling, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

50) The above figure shows a housing market with a rent ceiling equal to \$1,000. In this figure, what area is equal to the resources lost due to search?

- A) area *A*
- B) area *B*
- C) area *C*
- D) area *D*
- E) area *E*

Answer: B

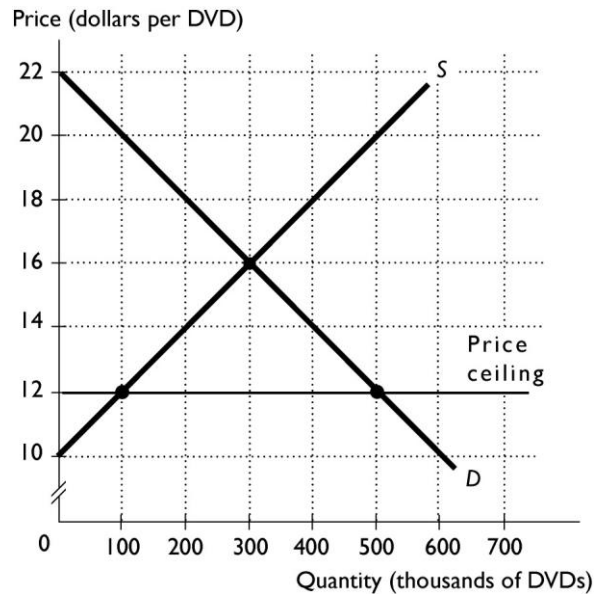
Topic: Rent ceiling, search

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning



51) The above figure shows the market for DVDs. The government decides that all citizens deserve to watch affordable DVDs so a price ceiling of \$12 per DVD is placed on DVDs. After this price ceiling is in effect and taking account of the resources lost in search, consumer surplus equals _____.

- A) \$900,000
- B) \$400,000
- C) \$200,000
- D) \$180,000
- E) \$100,000

Answer: E

Topic: Price ceiling, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

52) The above figure shows the market for DVDs. The government decides that all citizens deserve to watch affordable DVDs so a price ceiling of \$12 per DVD is placed on DVDs. After this price ceiling is in effect, producer surplus equals _____.

- A) \$900,000
- B) \$400,000
- C) \$200,000
- D) \$100,000
- E) \$1,800,000

Answer: D

Topic: Price ceiling, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

53) The above figure shows the market for DVDs. The government decides that all citizens deserve to watch affordable DVDs so a price ceiling of \$12 per DVD is placed on DVDs. After this price ceiling is in effect, deadweight loss equals _____.

- A) \$1,600,000
- B) \$200,000
- C) \$800,000
- D) \$1,800,000
- E) \$400,000

Answer: C

Topic: Price ceiling, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: KG

AACSB: Analytical reasoning

54) In a housing market with a rent ceiling set below the equilibrium rent, as time passes the supply of apartments

- A) decreases.
- B) increases.
- C) does not change.
- D) becomes fixed by the government.
- E) increases while the demand for apartments decreases.

Answer: A

Topic: Rent ceiling, change in supply over time

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

55) New York City, which has had a rent ceiling law for more than fifty years, has many abandoned apartment buildings throughout the city. Which of the following explains this?

- A) Few workers with jobs in the city want to live in there because of pollution.
- B) No building permits for new apartment buildings have been issued for over fifty years.
- C) Once any building gets so old, it is abandoned.
- D) Landlords have no incentive to finance maintenance and remodeling of apartment buildings.
- E) Rent ceilings make the construction of new buildings so profitable that old buildings are simply abandoned.

Answer: D

Topic: Rent ceiling, change in supply over time

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning

56) Which of the following is an example of the unfairness of rent control?

- A) Voluntary exchange is encouraged by rent control.
- B) Racial discrimination in renting is discouraged by rent control.
- C) Newcomers have a more difficult time finding apartments.
- D) Rich people do not get apartments in these markets.
- E) Too many people rent apartments.

Answer: C

Topic: Rent ceiling, unfairness

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

57) Suppose the city of Chicago imposes a rent control program that fixes rents at \$400 below the equilibrium rent. With this plan

- A) the quantity of apartments demanded will increase.
- B) the quantity of apartments supplied will increase.
- C) young people and poor people will have an easier time finding apartments.
- D) the deadweight loss in Chicago's apartment market will be eliminated.
- E) there will be a surplus of apartments offered for rent.

Answer: A

Topic: Rent ceiling, unfairness

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

58) Rent controls

- A) create a deadweight loss.
- B) increase maintenance by landlords.
- C) benefit people who live in rent controlled apartments.
- D) Both answers A and C are correct.
- E) Both answers B and C are correct.

Answer: D

Topic: Rent ceiling, unfairness

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

- 59) Rent ceilings are difficult to abolish because
- A) they create such large profits for landlords.
 - B) current renters offer political support for ceilings.
 - C) the government doesn't like to give up the tax revenues associated with ceilings.
 - D) they result in an efficient use of resources.
 - E) landlords lobby to keep them in place.

Answer: B

Topic: Rent ceiling, unfairness

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

- 60) A price ceiling is a government regulation that makes it illegal to charge a price
- A) below the equilibrium price.
 - B) above the equilibrium price.
 - C) for a good or service.
 - D) above some specified level.
 - E) below some specified level.

Answer: D

Topic: Price ceiling

Skill: Level 1: Definition

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning

- 61) When a price ceiling is set below the equilibrium price, the quantity supplied _____ the quantity demanded and _____ exists.

- A) is less than; a surplus
- B) is less than; a shortage
- C) is greater than; a surplus
- D) is greater than; a shortage
- E) equals; an equilibrium

Answer: B

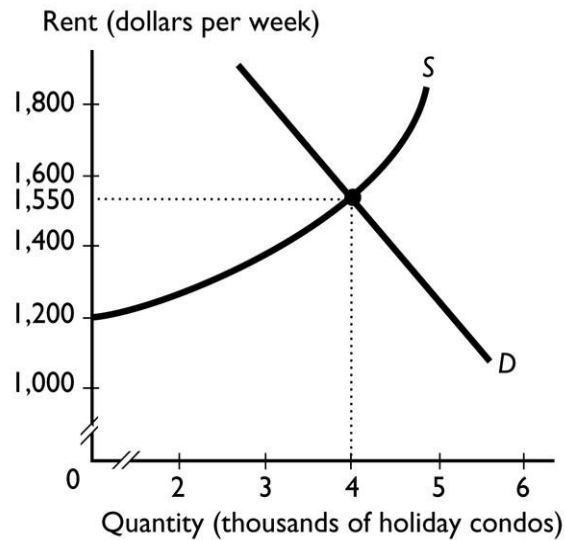
Topic: Price ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning



62) The graph shows the market for holiday condos in West Palm Beach. The equilibrium rent is _____ a week.

- A) any amount less than \$1,550
- B) any amount greater than \$1,550
- C) \$1,550
- D) \$4,000
- E) None of the above answers is correct.

Answer: C

Topic: Rent ceiling

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning

63) In a housing market with a rent ceiling set below the equilibrium rent,

- A) some people seeking an apartment to rent will not be able to find one.
- B) the total cost of renting an apartment will decrease for all those seeking housing.
- C) some landlords will not be able to find renters to fill available apartments.
- D) search will decrease because renters no longer need to search for less expensive apartments.
- E) None of the above answers are correct because to have an impact the rent ceiling must be set *above* the equilibrium rent.

Answer: A

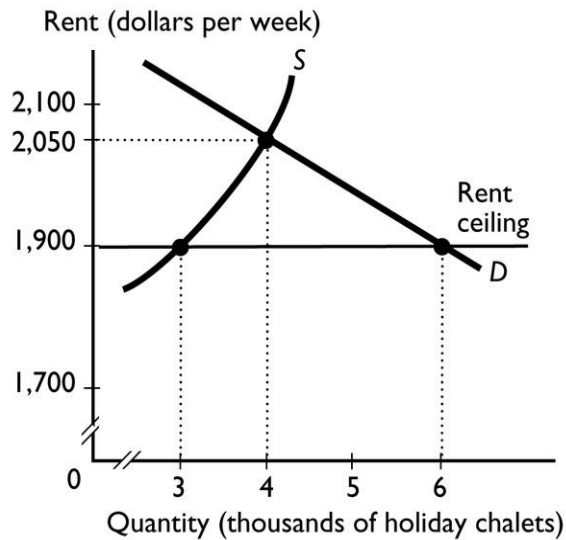
Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning



64) The graph shows the market for ski chalets in Aspen. The Aspen Tourist Board asks the local government to impose a rent ceiling on ski chalets. If the rent ceiling is set at \$1,900 a week, then there is _____.

- A) a shortage of 3,000 chalets a week
- B) a surplus of 3,000 chalets a week
- C) neither a shortage nor surplus of chalets
- D) a shortage of 6,000 chalets a week
- E) a surplus of 6,000 chalets a week

Answer: A

Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning

65) A rent ceiling on housing creates a problem of allocating the available housing units because

- A) the demand for housing decreases and the demand curve shifts leftward.
- B) the supply of housing increases and the supply curve shifts rightward.
- C) a shortage of apartments occurs.
- D) a surplus of apartments occurs.
- E) it eliminates search, which is one of the major ways housing units are allocated.

Answer: C

Topic: Rent ceiling, allocation

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning

66) Suppose that the government imposes a price ceiling on gasoline that is below the equilibrium price. The black market for gasoline is _____ market in which the price _____ ceiling price.

- A) a legal; exceeds the
- B) an illegal; exceeds the
- C) a legal; is less than the
- D) an illegal; is less than the
- E) an illegal; equals

Answer: B

Topic: Price ceiling, black market

Skill: Level 1: Definition

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning

67) If a rent ceiling is imposed that is less than the equilibrium rent, which of the following outcomes is most likely to occur?

- A) reduced search activity
- B) black market activity
- C) a building boom
- D) a housing surplus
- E) None of the above answers is correct because to have an impact the rent ceiling must be above the equilibrium rent.

Answer: B

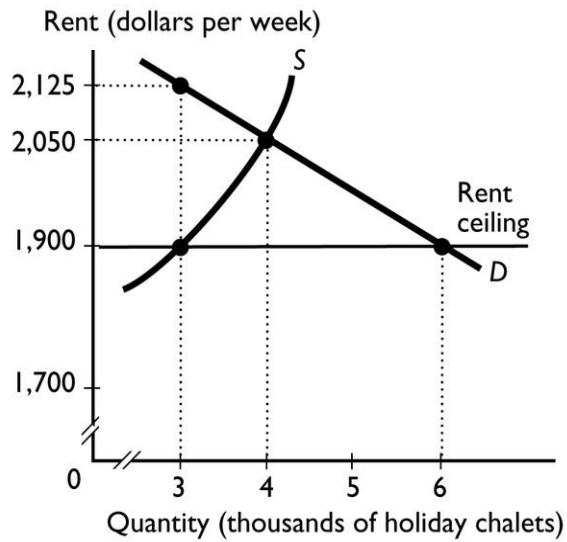
Topic: Rent ceiling, black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning



68) The graph shows the market for ski chalets in Aspen. If a rent ceiling is set at \$1,900 a week, then the maximum amount charged in the black market is _____ a week.

- A) \$1,900
- B) \$2,050
- C) \$2,125
- D) \$225
- E) \$150

Answer: C

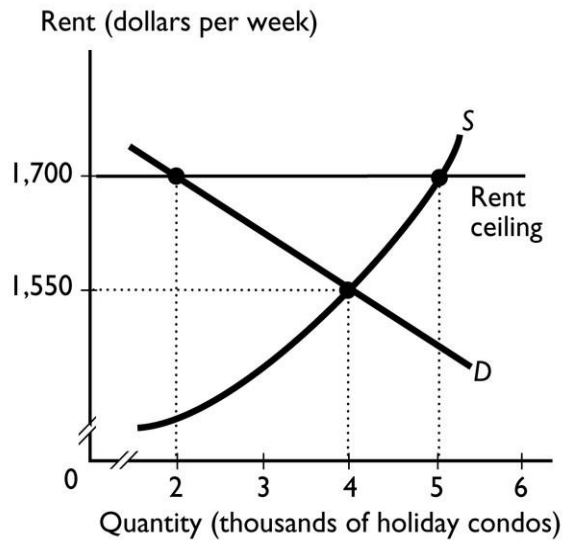
Topic: Rent ceiling, black market

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning



69) The graph shows the market for holiday condos in West Palm Beach. If a rent ceiling is set at \$1,700 a week, the quantity of holiday condos rented _____.

- A) is 2,000 a week
- B) is 4,000 a week
- C) is 5,000 a week
- D) is some amount but more information is needed to determine the amount.
- E) depends on the black market

Answer: B

Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning

70) Rent ceilings

- A) increase search activity.
- B) result in surpluses.
- C) create efficiency.
- D) benefit producers.
- E) have no effect if they are set below the equilibrium rent.

Answer: A

Topic: Rent ceiling, search

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning

71) A rent ceiling creates a deadweight loss

- A) if it is set below the equilibrium rent.
- B) if it is set equal to the equilibrium rent.
- C) if it is set above the equilibrium rent.
- D) if it decreases the taxes the government collects in the housing market.
- E) never, because if it did create a deadweight loss, the government would not impose it.

Answer: A

Topic: Price ceiling, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning

72) If a price ceiling is introduced in the market for milk below the market equilibrium price, then the producer surplus made by dairy farmers _____.

- A) will increase
- B) will decrease
- C) will not change
- D) might increase or decrease depending on whether the demand for milk increases or decreases
- E) might increase or decrease depending on whether the supply of milk decreases or increases

Answer: B

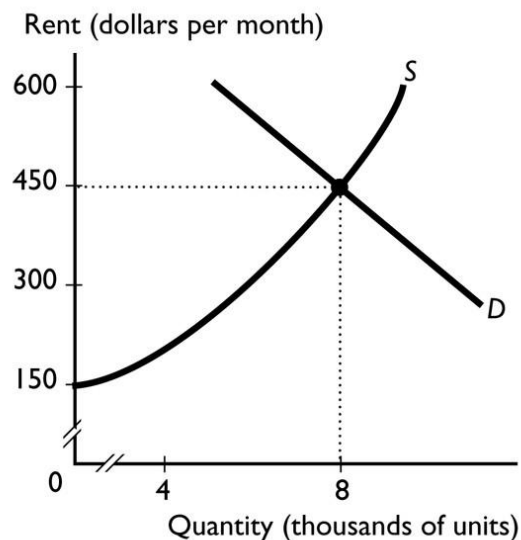
Topic: Price ceiling, efficiency

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning



73) The graph shows the market for rental housing in Little Rock. The market for apartments is efficient when _____.

- A) the quantity of apartments demanded is 12,000 a month
- B) the rent ceiling is set at \$300 a month
- C) there is no rent ceiling
- D) the quantity of apartments supplied is 6,000 a month
- E) the rent charged is less than \$450

Answer: C

Topic: Rent ceiling, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning

74) Rent ceilings

- A) eliminate the problem of scarcity.
- B) allocate resources efficiently.
- C) ensure that housing goes to the poorer people.
- D) benefit renters living in rent-controlled apartments.
- E) benefit all landlords because the landlords know what rent to charge their renters.

Answer: D

Topic: Rent ceiling, unfairness

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: STUDY GUIDE

AACSB: Analytical reasoning

75) A rent ceiling is

- A) fair, because it helps all renters.
- B) fair, because it insures that low-income families can rent apartments.
- C) fair, because it helps all landlords.
- D) unfair.
- E) fair, because it helps more renters than it harms.

Answer: D

Topic: Rent ceiling, unfairness

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: MyEconLab Web Site

AACSB: Analytical reasoning

7.3 Price Floors

1) A price floor is

- A) the highest possible legal price that can be charged for a good or service.
- B) usually equal to the equilibrium price established before the government imposed the price floor.
- C) the lowest legal price at which a good or service can be traded.
- D) a legal price of zero that can be charged for a good or service.
- E) almost always equal to the price ceiling.

Answer: C

Topic: Price floor

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

2) A price floor makes prices

- A) below the price floor illegal.
- B) above the price floor illegal.
- C) below the equilibrium price illegal.
- D) above the equilibrium price illegal.
- E) None of the above answers is correct.

Answer: A

Topic: Price floor

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

3) Which of the following is an example of a price floor?

- A) a law passed in a city to lower apartment rents by setting the maximum price that can be charged for rent
- B) an equilibrium price
- C) a minimum wage law
- D) a law setting the highest price that can legally be charged for a gallon of gasoline.
- E) None of the above answers give examples of a price floor.

Answer: C

Topic: Price floor

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

- 4) A price floor set above the equilibrium price
- A) creates a surplus.
 - B) creates a shortage.
 - C) creates excess demand.
 - D) balances supply and demand.
 - E) has no effect.

Answer: A

Topic: Price floor, surplus

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

- 5) A price floor
- A) changes the equilibrium price if it is imposed in black markets.
 - B) changes the price and quantity if it is set below the equilibrium price.
 - C) changes the price and quantity if it is set above the equilibrium price.
 - D) does not create a black market if it is set above the equilibrium price.
 - E) changes the price and quantity only if it equals the equilibrium price.

Answer: C

Topic: Price floor, surplus

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

- 6) Suppose the equilibrium price of a gallon of milk is \$4. If the government imposes a price floor of \$5 per gallon of milk, the
- A) quantity supplied of milk falls short of the quantity demanded.
 - B) quantity supplied of milk exceeds the quantity demanded.
 - C) supply increases.
 - D) demand decreases.
 - E) price of milk remains \$4 per gallon.

Answer: B

Topic: Price floor, surplus

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

7) In the labor market, as wages rise, households

- A) decrease the quantity of labor supplied.
- B) increase the quantity of labor supplied.
- C) decrease the quantity of labor demanded.
- D) increase the quantity of labor demanded.
- E) increase the supply of labor.

Answer: B

Topic: Labor market

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

8) A stated goal of a minimum wage is to

- A) increase government tax revenue.
- B) stabilize production costs.
- C) boost the incomes of low-wage earners.
- D) decrease business profits.
- E) increase business profits by making the labor market more efficient.

Answer: C

Topic: Minimum wage

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

9) A minimum wage law in a competitive labor market

- A) creates a shortage of labor.
- B) causes equality between the quantity of labor supplied and the quantity demanded.
- C) creates a surplus of labor.
- D) lowers the wage rate paid to workers.
- E) has an impact only if it is set below the equilibrium wage rate.

Answer: C

Topic: Minimum wage, employment

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

10) Why do some workers lose their job when a minimum wage level is increased?

- A) The increase in labor costs decreases the supply of the product, thereby raising the price of the good so that the equilibrium quantity decreases to zero.
- B) The increase in the wage rate decreases the quantity of labor demanded.
- C) The demand for labor is perfectly inelastic.
- D) The supply of labor decreases.
- E) The demand for labor is perfectly elastic.

Answer: B

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

11) A minimum wage increases unemployment by

- A) increasing the quantity of labor demanded.
- B) decreasing the quantity of labor demanded.
- C) shifting only the labor supply curve rightward.
- D) shifting only the labor demand curve leftward.
- E) shifting the labor supply curve rightward *and* shifting the labor demand curve leftward.

Answer: B

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

12) Suppose the current equilibrium wage rate for housekeepers is \$8.60 per hour. An increase in the minimum wage to \$7.50 per hour leads to

- A) a surplus of housekeepers.
- B) a shortage of housekeepers.
- C) no change in the market for housekeepers.
- D) an increase in the quantity of housekeepers supplied.
- E) unemployment of housekeepers.

Answer: C

Topic: Minimum wage, employment

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

13) Suppose the equilibrium wage rate for apricot pickers is \$7.00 per hour and at that wage rate the equilibrium quantity of apricot pickers employed is 14,000. If the minimum wage is set at \$7.50 per hour, then the

- A) quantity of apricot pickers employed increases.
- B) quantity of apricot pickers employed decreases.
- C) quantity of apricot pickers employed does not change.
- D) wage rate for apricot pickers decreases.
- E) quantity of apricot pickers demanded does not change and the quantity of apricot pickers supplied does not change.

Answer: B

Topic: Minimum wage, employment

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

14) Suppose the current equilibrium wage rate for landscapers is \$6.65 in Little Rock; \$7.50 in St. Louis and \$9.05 in Raleigh. An increase in the minimum wage to \$7.50 per hour results in unemployment of landscapers in

- A) Little Rock and St. Louis.
- B) only Raleigh.
- C) Little Rock, St. Louis, and Raleigh.
- D) only Little Rock.
- E) St. Louis and Raleigh.

Answer: D

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

15) Suppose the equilibrium wage rate for apricot pickers is \$9.00 per hour in California and at that wage rate the equilibrium quantity of apricot pickers is 14,000. If the minimum wage is set at \$7.50 per hour, then

- A) the quantity of apricot pickers employed increases.
- B) the quantity of apricot pickers employed decreases.
- C) the quantity of apricot pickers employed does not change.
- D) the wage rate for apricot pickers increases.
- E) some apricot pickers are unemployed.

Answer: C

Topic: Minimum wage, employment

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

Wage rate (dollars per hour)	Quantity demanded (workers)	Quantity supplied (workers)
12	400	1000
11	600	900
10	800	800
9	1000	700
8	1200	500

16) The labor demand and labor supply schedules are given in the table above. If a minimum wage of \$11 per hour is imposed,

- A) a surplus of 300 workers occurs.
- B) there is no shortage or surplus of workers.
- C) 900 workers are employed.
- D) Both answers B and C are correct.
- E) Both answers A and C are correct.

Answer: A

Topic: Minimum wage, employment

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

17) The labor demand and labor supply schedules are given in the table above. If a minimum wage of \$9 per hour is imposed,

- A) a surplus of 300 workers occurs.
- B) a shortage of 300 workers occurs.
- C) there is no surplus or shortage of workers.
- D) the quantity demanded is 1,000 workers.
- E) there is unemployment of 700 workers.

Answer: C

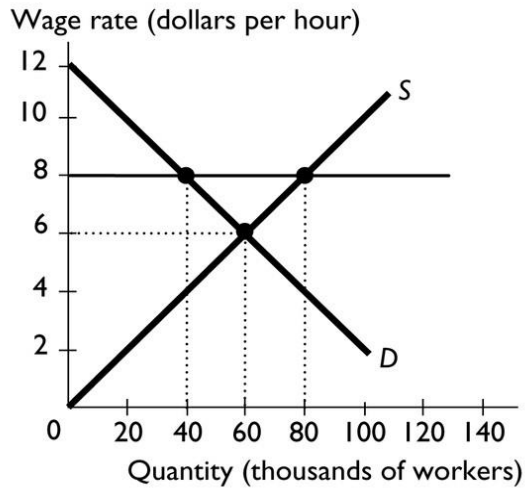
Topic: Minimum wage, employment

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning



18) The figure above shows the labor market in a region. For a minimum wage to change the wage rate and amount of employment, it must be

- A) left to the forces of supply and demand.
- B) set above \$6 an hour.
- C) set equal to \$6 an hour.
- D) set below \$6 an hour.
- E) set at \$12 per hour.

Answer: B

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

19) The figure above shows the labor market in a region. If a minimum wage of \$8 an hour is imposed, then there are _____ unemployed workers.

- A) 20,000
- B) 40,000
- C) 60,000
- D) 80,000
- E) zero

Answer: B

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

20) The figure above shows the labor market in a region. If a minimum wage of \$8 an hour is imposed, then the quantity of labor supplied is _____ and the quantity of labor demanded is _____.

- A) 60,000; 60,000
- B) 80,000; 40,000
- C) 40,000; 60,000
- D) 60,000; 40,000
- E) 40,000; 40,000

Answer: B

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

21) The figure above shows the labor market in a region. In which of the following cases would the amount of unemployment be the largest?

- A) when the market is at its equilibrium, with no minimum wage
- B) when a minimum wage of \$4 an hour is imposed
- C) when a minimum wage of \$6 an hour is imposed
- D) when a minimum wage of \$8 an hour is imposed
- E) None of the above because the market will adjust so that there is no unemployment.

Answer: D

Topic: Minimum wage, unemployment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MR

AACSB: Analytical reasoning

22) One result of the minimum wage is

- A) a black market for labor that pays more than the minimum wage.
- B) a black market for labor that pays less than the minimum wage.
- C) decreased job search activity.
- D) a decrease in unemployment among poor and unskilled workers.
- E) an increase in employment among poor and unskilled workers.

Answer: B

Topic: Minimum wage, black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

23) One result of a minimum wage is

- A) illegal hiring of people at wages below the minimum wage.
- B) more people with jobs.
- C) a change in the equilibrium wage.
- D) lower costs paid by firms.
- E) fewer people searching for work because they realize that firms have decreased the number of people hired.

Answer: A

Topic: Minimum wage, black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

24) A minimum wage law

- A) lowers the wage rate of workers who are able to get a job.
- B) increases employment.
- C) increases the time spent searching by workers who cannot find a job.
- D) creates efficiency in the labor market.
- E) must be set below the equilibrium wage rate in order to have an impact.

Answer: C

Topic: Minimum wage, search

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

25) An increase in the minimum wage to \$15 per hour would lead to

- A) an increase in search activity for many workers.
- B) a decrease in search activity for many workers.
- C) a decrease in unemployment.
- D) no change in unemployment.
- E) no change in employment.

Answer: A

Topic: Minimum wage, search

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

26) Suppose the marginal benefit the owner of a cherry orchard derives from hiring Lauren to pick cherries is \$8 per hour. If the wage rate that Lauren earns is \$7 per hour, then the orchard owner's surplus from Lauren's labor is _____ per hour.

- A) \$7
- B) \$15
- C) \$1
- D) \$8
- E) \$0

Answer: C

Topic: Demand for labor, surplus

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

27) The surplus for workers from a job is equal to the

- A) marginal cost of work.
- B) wage rate.
- C) marginal cost of work minus the wage rate.
- D) wage rate minus the marginal cost of work.
- E) marginal benefit of hiring a worker minus the wage rate.

Answer: D

Topic: Supply of labor, surplus

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

28) An efficient allocation of labor occurs when the

- A) marginal benefit to workers exceeds the marginal benefit to firms.
- B) marginal benefit to firms exceeds the marginal benefit to workers.
- C) marginal cost to workers is equal to the marginal benefit to firms.
- D) marginal cost and marginal benefit of both workers and the firms are equal to zero.
- E) marginal benefit of workers exceeds the marginal cost to firms by as much as possible.

Answer: C

Topic: Minimum wage, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

29) If the minimum wage is set above the equilibrium wage, after taking into account the resources lost in job search, the firms' surplus _____ and the workers' surplus _____.

- A) increases; increases
- B) increases; decreases.
- C) decreases; increases
- D) decreases; decreases
- E) does not change; decreases

Answer: D

Topic: Minimum wage, efficiency

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

30) A minimum wage set above the equilibrium wage

- A) decreases the deadweight loss in the market.
- B) decreases the workers' surplus because workers must spend resources looking for jobs.
- C) increases the firm's surplus.
- D) increases the market's efficiency.
- E) has no effect on the market.

Answer: B

Topic: Minimum wage, efficiency

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

31) A minimum wage that is above the equilibrium wage rate

- A) increases efficiency within the labor market.
- B) increases the quantity of labor demanded.
- C) creates a deadweight loss.
- D) has no effect on the labor market because it is set above the equilibrium wage rate.
- E) None of the above answers is correct.

Answer: C

Topic: Minimum wage, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

- 32) The deadweight loss associated with a minimum wage occurs because
- A) the minimum wage increases the quantity of labor demanded.
 - B) the minimum wage decreases the quantity of labor supplied.
 - C) the minimum wage falls below the equilibrium wage.
 - D) employment after the minimum wage is less than employment at equilibrium and so the marginal benefit of more work exceeds the marginal cost.
 - E) the minimum wage creates a shortage of labor because firms hire fewer workers.

Answer: D

Topic: Minimum wage, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

- 33) A minimum wage
- A) increases all workers' surplus because the wage rate increases.
 - B) increases consumer surplus because the price of the good decreases.
 - C) decreases the firms' surplus because fewer workers are hired at the higher wage.
 - D) increases the firms' surplus and the workers' surplus because it increases the efficiency of the labor market.
 - E) None of the above answers is correct.

Answer: C

Topic: Minimum wage, deadweight loss

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

- 34) Who loses and who gains from the minimum wage?
- A) Losers are all workers and gainers are all firms.
 - B) Losers are all firms and gainers are all workers.
 - C) Losers are all firms and some workers, while gainers are other workers.
 - D) Gainers are some firms and all workers, while losers are some firms.
 - E) Gainers are some firms and some workers, while losers are other firms and other workers.

Answer: C

Topic: Minimum wage, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MR

AACSB: Analytical reasoning

- 35) The people who immediately benefit from a minimum wage are
- A) employers who now pay the minimum wage.
 - B) those people who enter the labor force to search for minimum wage jobs.
 - C) the workers who retain their jobs after enactment of the minimum wage.
 - D) everyone, both demanders and suppliers, because the minimum wage benefits everyone.
 - E) all workers.

Answer: C

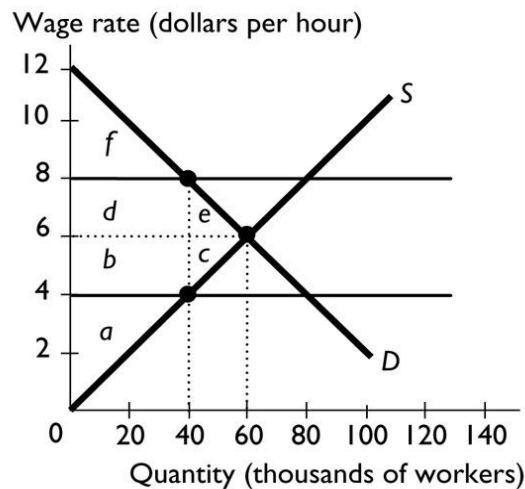
Topic: Minimum wage, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning



- 36) In the figure above, if the wage rate is \$6 per hour, then the
- A) firms' surplus is the area $d + e + f$.
 - B) workers' surplus is the area $a + b + c$.
 - C) deadweight loss equals zero.
 - D) Only answers A and C are correct.
 - E) Answers A, B, and C are correct.

Answer: E

Topic: Minimum wage, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

37) In the figure above, if the minimum wage rate is \$8 per hour, then after taking account of resources lost in job search, the workers' surplus is the area _____ and the firms' surplus is the area _____.

- A) $e; c$
- B) $d; b$
- C) $a; f$
- D) $f; a$
- E) $a + b + c + d + e; f$

Answer: C

Topic: Minimum wage, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

38) In the figure above, if the minimum wage is \$8 per hour, then

- A) resources used in job-search activity increase compared to the situation before the minimum wage.
- B) it is legal to hire workers for a wage below the minimum wage because otherwise unemployment would result.
- C) the deadweight loss is minimized.
- D) Both answers A and B are correct.
- E) Both answers B and C are correct.

Answer: A

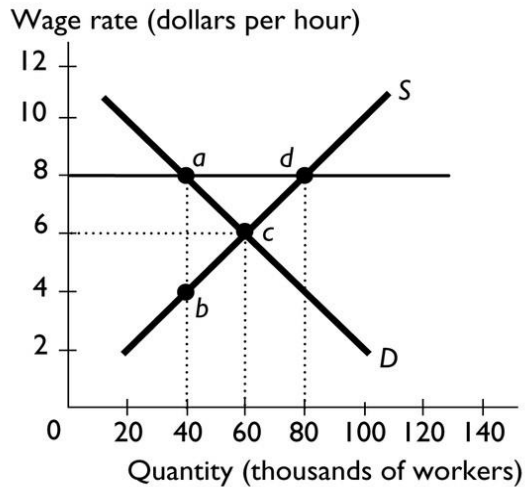
Topic: Minimum wage, efficiency

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning



39) The above figure shows a labor market with a minimum wage of \$8 an hour. How many people are employed when the minimum wage is in place?

- A) 40,000
- B) 60,000
- C) 80,000
- D) fewer than 40,000
- E) more than 80,000

Answer: A

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

40) The above figure shows a labor market. Before the minimum wage of \$8 an hour is imposed, employment equals _____ workers; after the minimum wage of \$8 an hour is imposed, employment equals _____ workers.

- A) 80,000; 40,000
- B) 40,000; 80,000
- C) 60,000; 40,000
- D) 60,000; 80,000
- E) 80,000; 60,000

Answer: C

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MR

AACSB: Analytical reasoning

41) The above figure shows a labor market with a minimum wage of \$8 an hour. The value of the resources workers are willing to use in their job search equals the distance between point _____ and point _____.

- A) $a; d$
- B) $a; b$
- C) $b; c$
- D) $a; c$
- E) $c; d$

Answer: B

Topic: Minimum wage, search

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

42) The above figure shows a labor market with a minimum wage of \$8 an hour. The deadweight loss equals the

- A) area abc .
- B) distance ab .
- C) distance ad .
- D) area bad .
- E) area acd .

Answer: A

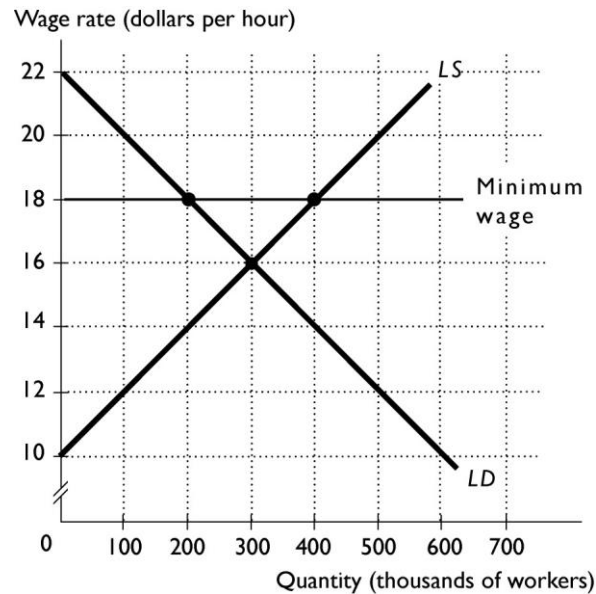
Topic: Minimum wage, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: MR

AACSB: Analytical reasoning



43) The above figure shows the market for finish carpenters in Bozeman. If there is a minimum wage set at \$18, then there will be

- A) unemployment of 200 workers.
- B) a surplus of 200 workers.
- C) unemployment of 400 workers.
- D) a surplus of 400 workers.
- E) no unemployment of workers and no surplus of workers.

Answer: A

Topic: Minimum wage, unemployment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

44) The above figure shows the market for finish carpenters in Bozeman. If there is a minimum wage set at \$18, what is true?

- A) The lowest wage for which someone is willing to work is \$18 an hour.
- B) The quantity of jobs increases to 400.
- C) The lowest wage for which someone is willing to work is \$20 an hour.
- D) 200 workers are employed.
- E) The quantity of jobs demanded is more than the quantity supplied.

Answer: D

Topic: Minimum wage, unemployment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

45) The above figure shows the market for finish carpenters in Bozeman. If there is a minimum wage set at \$18, which of the following statements is true?

- A) Firms' surplus increase with the minimum wage.
- B) Workers who retain their jobs have their wages rise.
- C) The market is efficient.
- D) The quantity supplied of workers is less than quantity demanded.
- E) Unemployment decreases because firms employ their workers more carefully.

Answer: B

Topic: Minimum wage

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

46) The above figure shows the market for finish carpenters in Bozeman. There is a minimum wage set at \$18. Compared to the initial equilibrium without the minimum wage, once the minimum wage is in place and after taking account of job search, the total workers' surplus _____ and the total firms' surplus _____.

- A) decreases; increases
- B) increases; increases
- C) increases; decreases
- D) does not change; increases
- E) decreases; decreases

Answer: E

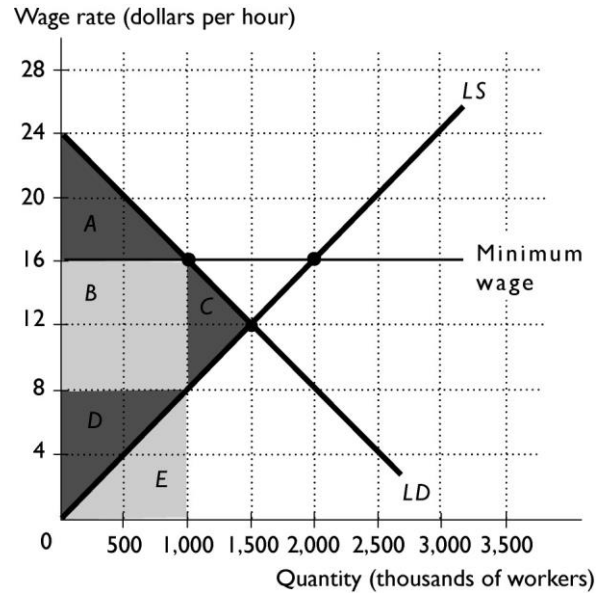
Topic: Minimum wage, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning



47) The above figure shows a labor market with minimum wage equal to \$16. In this figure, what area equals the firms' surplus?

- A) area *A*
- B) area *B*
- C) area *C*
- D) area *D*
- E) area *E*

Answer: A

Topic: Minimum wage, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

48) The above figure shows a labor market with minimum wage equal to \$16. In this figure, after taking account of search costs, what area equals the workers' surplus?

- A) area *A*
- B) area *B*
- C) area *C*
- D) area *D*
- E) area *E*

Answer: D

Topic: Minimum wage, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

49) The above figure shows a labor market with minimum wage equal to \$16. In this figure, what area equals the deadweight loss?

- A) area *A*
- B) area *B*
- C) area *C*
- D) area *D*
- E) area *E*

Answer: C

Topic: Minimum wage, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

50) The above figure shows a labor market with minimum wage equal to \$16. In this figure, what area equals the resources lost because of job search?

- A) area *A*
- B) area *B*
- C) area *C*
- D) area *D*
- E) area *E*

Answer: B

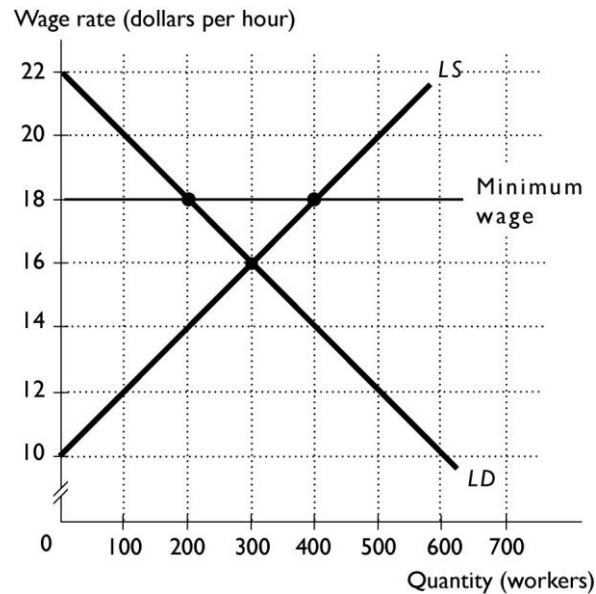
Topic: Minimum wage, search

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning



51) The above figure shows the market for biologists. The government decides to set a minimum wage for biologists of \$18 per hour. After this minimum wage is in effect, the firms' surplus equals _____.

- A) \$800
- B) \$900
- C) \$1,800
- D) \$400
- E) \$200

Answer: D

Topic: Minimum wage, deadweight loss

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

52) The above figure shows the market for biologists. The government decides to set a minimum wage for biologists of \$18 per hour. After this minimum wage is in effect, and taking account of the resources lost in job search, workers' surplus equals _____.

- A) \$800
- B) \$900
- C) \$400
- D) \$1,800
- E) \$200

Answer: C

Topic: Minimum wage, deadweight loss

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

53) The above figure shows the market for biologists. The government decides to set a minimum wage for biologists of \$18 per hour. After this minimum wage is in effect, the deadweight loss equals _____.

- A) \$400
- B) \$200
- C) \$800
- D) \$1600
- E) \$100

Answer: B

Topic: Minimum wage, deadweight loss

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

54) The above figure shows the market for biologists. The government decides to set a minimum wage for biologists of \$18 per hour. After this minimum wage is in effect, unemployment equals _____ workers .

- A) 100
- B) 300
- C) 400
- D) 500
- E) 200

Answer: E

Topic: Minimum wage, unemployment

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: KG

AACSB: Analytical reasoning

55) A price floor is considered

- A) "fair" based only on the fair results view.
- B) "fair" based only on the fair rules view.
- C) "unfair" based on both the fair results and fair rules views.
- D) "unfair" based only on the fair results view.
- E) "fair" based on the fair results view and on the fair rules view.

Answer: C

Topic: Price floor, fairness

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: CD

AACSB: Analytical reasoning

56) Is the minimum wage fair?

- A) Yes, because all workers benefit because they are paid more.
- B) No, because it enhances the prospects of voluntary exchange.
- C) No, because workers who lose their jobs are made worse off.
- D) Yes, because firms must pay a wage closer to a living wage.
- E) Yes, because workers need the extra income.

Answer: C

Topic: Minimum wage, unfairness

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: MR

AACSB: Analytical reasoning

57) One of the reasons a minimum wage is unfair is because it

- A) benefits all workers.
- B) blocks voluntary exchange.
- C) is imposed by government.
- D) is below the equilibrium wage rate.
- E) cannot be enforced.

Answer: B

Topic: Minimum wage, unfairness

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

58) A minimum wage law set above the equilibrium wage rate is unfair because the minimum wage

- A) does not apply to all workers.
- B) boosts the income of highly skilled workers.
- C) benefits only those workers who are able to find and keep a job.
- D) benefits nobody.
- E) cannot be enforced.

Answer: C

Topic: Minimum wage, unfairness

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

59) Labor unions _____ increases in the minimum wage because an increase in the minimum wage _____ the demand for union labor.

- A) support; increases
- B) support; decreases
- C) oppose; increases
- D) oppose; decreases
- E) support; has no effect on

Answer: A

Topic: Minimum wage, support

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

60) Labor unions support the minimum wage because

- A) the increased unemployment is good for labor.
- B) the value associated with the deadweight loss goes to labor unions.
- C) labor unions prefer to operate in black markets.
- D) it puts upward pressure on all wages.
- E) union members are usually paid the minimum wage.

Answer: D

Topic: Minimum wage, support

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

61) A price floor

- A) is the highest price at which it is legal to trade a particular good, service, or factor of production.
- B) is the lowest price at which it is legal to trade a particular good, service, or factor of production.
- C) is an illegal price to charge.
- D) is the equilibrium price when the stock market crashes.
- E) is the lowest price for which the quantity demanded equals the quantity supplied.

Answer: B

Topic: Price floor

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning

- 62) A price floor is a price
 A) below which a seller cannot legally sell.
 B) above which a seller cannot legally sell.
 C) that creates a shortage of the good if it is set above the equilibrium price.
 D) Both answers A and C are correct.
 E) Both answers B and C are correct.

Answer: A

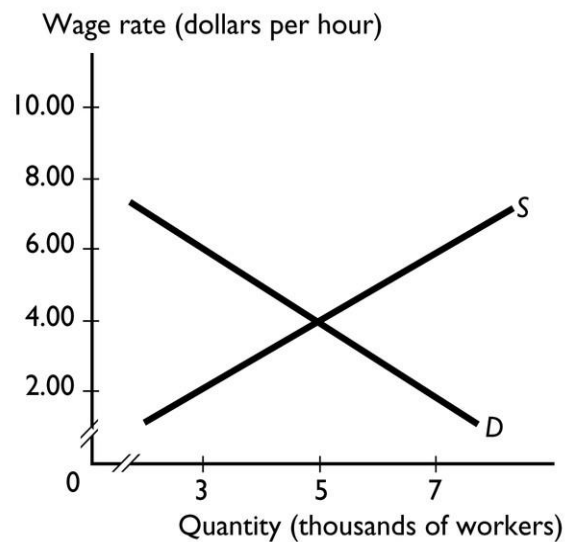
Topic: Price floor

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning



- 63) The graph shows the labor market for painters. The lower the wage rate, the _____ is the quantity of painters that firms demand and the _____ is the quantity of painters that households are willing to supply.

- A) greater; smaller
 B) greater; greater
 C) smaller; greater
 D) smaller; smaller
 E) None of the above answers is correct because both the demand and supply curves will shift in response to the change in the wage rate.

Answer: A

Topic: Labor market

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning

64) To be effective in raising people's wages, a minimum wage must be set

A) above the equilibrium wage rate.

B) below the equilibrium wage rate.

C) equal to the equilibrium wage rate.

D) below \$7.

E) either above or below the equilibrium wage depending on whether the supply curve of labor shifts rightward or leftward in response to the minimum wage.

Answer: A

Topic: Minimum wage

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning

65) A minimum wage set above the equilibrium wage rate

A) increases the quantity of labor services supplied.

B) decreases the quantity of labor services supplied.

C) has no effect on the quantity of labor services supplied.

D) shifts the labor supply curve rightward.

E) shifts the labor supply curve leftward.

Answer: A

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning

66) A minimum wage set above the equilibrium wage will _____ the quantity of labor demanded and _____ the quantity of labor supplied.

A) increase; increase

B) increase; decrease

C) decrease; increase

D) decrease; decrease

E) not change; not change

Answer: C

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning

- 67) Suppose the current equilibrium wage rate for lifeguards in Houston is \$7.85 an hour. A minimum wage law that creates a price floor of \$8.50 an hour leads to
- A) a surplus of lifeguards in Houston.
 - B) a shortage of lifeguards in Houston.
 - C) no changes in the lifeguard market.
 - D) a change in the quantity of lifeguards supplied but no change in the quantity of lifeguards demanded.
 - E) an increase in the number of lifeguards employed.

Answer: A

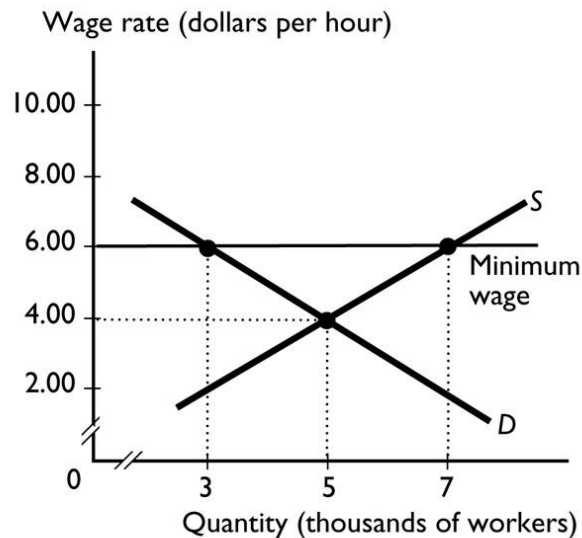
Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning



- 68) The graph shows the labor market for teenagers in Atlanta. If the government sets a minimum wage of \$6 an hour, the number of teenagers employed is _____.
- A) 7,000
 - B) 5,000
 - C) 4,000
 - D) 3,000
 - E) less than 3,000

Answer: D

Topic: Minimum wage, employment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning

69) If the minimum wage is above the equilibrium wage rate, then an increase in the minimum wage _____ employment and _____ unemployment.

- A) increases; increases
- B) increases; decreases
- C) decreases; increases
- D) decreases; decreases
- E) does not change; increases

Answer: C

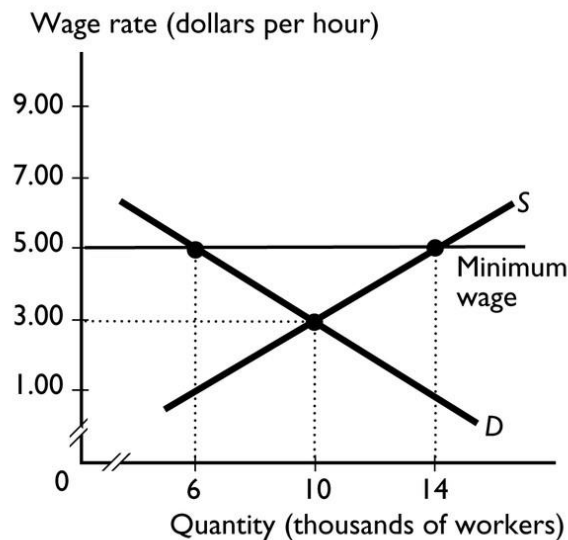
Topic: Minimum wage, employment

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning



70) The graph shows the labor market for apple pickers in Ohio. If the government sets a minimum wage of \$5 an hour, _____ apple pickers are unemployed.

- A) 6,000
- B) 8,000
- C) 10,000
- D) 14,000
- E) more than 14,000

Answer: B

Topic: Minimum wage, unemployment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning

- 71) If a minimum wage is introduced that is above the equilibrium wage rate,
- A) the quantity of labor demanded increases.
 - B) job search activity increases.
 - C) the supply of labor increases and the supply of labor curve shifts rightward.
 - D) unemployment decreases because more workers accept jobs at the higher minimum wage rate.
 - E) the quantity of labor supplied decreases because of the increase in unemployment.

Answer: B

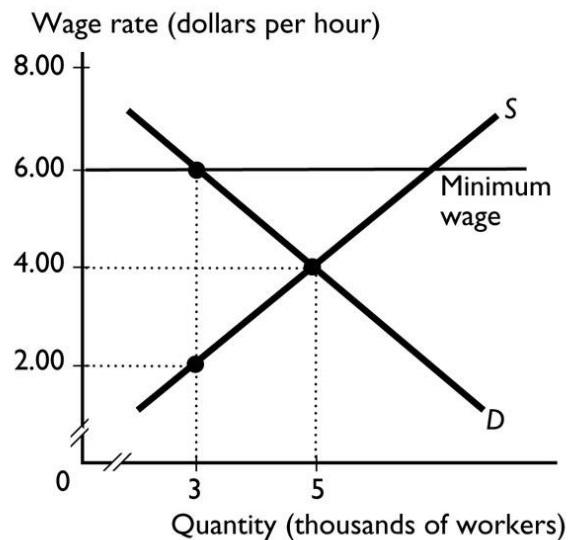
Topic: Minimum wage, search

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning



- 72) The graph shows the labor market for teenagers in Atlanta. If the government sets a minimum wage of \$6 an hour, then the maximum amount that a teenager would be willing to spend on job search is _____ an hour.

- A) \$2
- B) \$4
- C) \$5
- D) \$6
- E) \$3

Answer: B

Topic: Minimum wage, search

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning

73) The minimum wage is set above the equilibrium wage rate. Does the minimum wage create inefficiency?

- A) Yes
- B) No
- C) Only if the supply of labor is perfectly inelastic
- D) Only if the supply of labor is perfectly elastic
- E) Only if employment exceeds the efficient amount

Answer: A

Topic: Minimum wage, efficiency

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning

74) A minimum wage set above the equilibrium wage rate creates

- A) efficiency because it increases most workers' wages.
- B) efficiency because few workers lose their jobs.
- C) efficiency because workers can earn a living wage.
- D) inefficiency and a deadweight loss.
- E) inefficiency because it creates excessive employment.

Answer: D

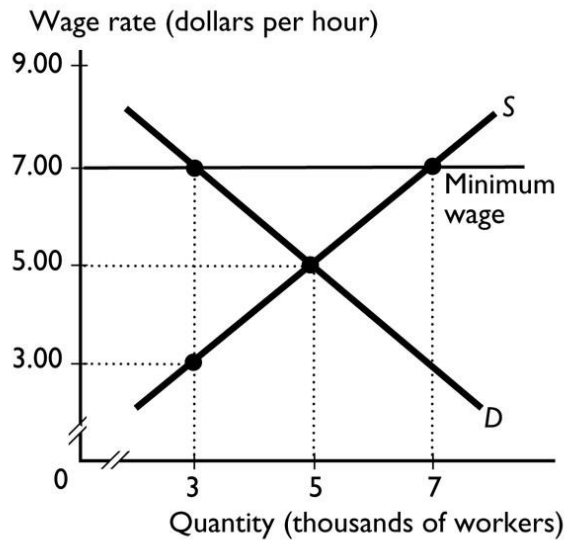
Topic: Minimum wage, efficiency

Skill: Level 1: Definition

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning



75) The graph shows the labor market for fast-food workers in Sioux City. If the government sets a minimum wage of \$7 an hour, then the labor market is _____ and marginal benefit _____ marginal cost.

- A) inefficient; is less than
- B) inefficient; equals
- C) efficient; equals
- D) inefficient; is greater than
- E) inefficient; cannot be compared to

Answer: D

Topic: Minimum wage, efficiency

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: MyEconLab Web Site

AACSB: Analytical reasoning

76) When the minimum wage is raised, the _____ union labor _____.

- A) demand for; increases
- B) demand for; decreases
- C) supply of; increases
- D) supply of; decreases
- E) demand for; does not change

Answer: A

Topic: Minimum wage, support

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: STUDY GUIDE

AACSB: Analytical reasoning

7.4 Price Supports in Agriculture

1) The methods that governments use to support farmers vary, but they almost always involve some or all the following methods EXCEPT

- A) pay farmers a subsidy.
- B) introduce a price floor.
- C) isolate the domestic market from global competition.
- D) tax farmers.
- E) use price supports.

Answer: D

Topic: Price support

Skill: Level 1: Definition

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

2) A price floor in an agricultural market is called

- A) an agricultural floor.
- B) a farm support.
- C) a price support.
- D) a farm subsidy.
- E) a farm support price.

Answer: C

Topic: Price support

Skill: Level 1: Definition

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

3) Which of the following is true regarding a price support set above the equilibrium price?

- i. The price support increases the price consumers pay.
- ii. The price support creates a deadweight loss.
- iii. The price support decreases output.

- A) i and ii
- B) i and iii
- C) iii only
- D) i, ii, and iii
- E) i only

Answer: A

Topic: Price support

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CD

AACSB: Analytical reasoning

4) In a crop market with a price support above the equilibrium price, the total amount of the subsidy paid to farmers is equal to the

- A) quantity of the surplus crop multiplied by the support price.
- B) quantity of the crop produced multiplied by the support price.
- C) quantity of the crop purchased by domestic users multiplied by the support price.
- D) quantity of the surplus crop multiplied by the equilibrium price.
- E) quantity of the crop purchased by domestic users multiplied by the equilibrium price.

Answer: A

Topic: Price support

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

5) In the market for cotton, suppose the equilibrium price is \$10 per ton and the equilibrium quantity is 100 tons. If the government then imposes a price support of \$20 per ton,

- A) the market price increases.
- B) the market price decreases.
- C) marginal cost decreases.
- D) consumer surplus increases.
- E) the deadweight loss is decreased.

Answer: A

Topic: Price support, price

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CD

AACSB: Analytical reasoning

6) When a price support is set below the equilibrium price, producers _____ the quantity supplied and consumers _____ the quantity demanded.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease
- E) do not change; do not change

Answer: E

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: MR

AACSB: Analytical reasoning

7) Setting a price support in the market for sugar beets above equilibrium price _____ the quantity produced and _____ the quantity bought by consumers.

- A) decreases; decreases
- B) increases; decreases
- C) decreases; increases
- D) increases; increases
- E) does not change; increases

Answer: B

Topic: Price support

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

8) Assume a market is producing efficiently. Which type of government intervention in this market might create a deadweight loss?

- i. a price ceiling
- ii. a price floor
- iii. a price support

- A) i only
- B) i and ii
- C) iii only
- D) ii and iii
- E) i, ii, and iii

Answer: E

Topic: Efficiency

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: SB

AACSB: Analytical reasoning

9) A price support leads to inefficiency because

- A) output is more than the efficient, equilibrium quantity.
- B) the marginal benefit of the last unit produced is larger than the marginal cost.
- C) the price charged is less than the equilibrium price.
- D) producer surplus is less than consumer surplus.
- E) producers must pay a subsidy to the government.

Answer: A

Topic: Price support, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CD

AACSB: Analytical reasoning

10) Suppose the government imposes a price support that is above the equilibrium price. As a result,

- A) total revenue increases.
- B) consumer surplus increases.
- C) the marginal cost of the last unit produced decreases.
- D) the government has effectively imposed a price ceiling.
- E) the subsidy the government pays decreases.

Answer: A

Topic: Price support, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CD

AACSB: Analytical reasoning

11) When a market has a price support set above the equilibrium price,

- A) consumers gain.
- B) taxes on consumers decrease.
- C) marginal benefit exceeds marginal cost.
- D) the market is efficient.
- E) farmers gain.

Answer: E

Topic: Price support

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

12) A price support set above the equilibrium price does which of the following?

- i. decreases producer surplus
- ii. decreases consumer surplus
- iii. decreases the marginal cost of the last unit produced

- A) i and ii
- B) i and iii
- C) ii and iii
- D) i, ii, and iii
- E) ii only

Answer: E

Topic: Price support, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CD

AACSB: Analytical reasoning

13) Suppose the equilibrium price of cotton is \$100 per ton. A price support set at _____ than \$100 per ton _____.

- A) less; increases producer surplus
- B) less; increases consumer surplus
- C) more; increases consumer surplus
- D) more; decreases marginal cost
- E) more; creates a surplus that the government must buy

Answer: E

Topic: Price support, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CD

AACSB: Analytical reasoning

14) In the market for cotton, suppose the equilibrium price is \$10 per ton and the equilibrium quantity is 100 tons. If the government then imposes a price support of \$20 per ton,

- A) marginal benefit exceeds marginal cost.
- B) the market becomes more efficient
- C) marginal cost decreases.
- D) the government must supply some cotton to offset the shortage that results.
- E) marginal cost exceeds marginal benefit.

Answer: E

Topic: Price support, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CD

AACSB: Analytical reasoning

15) In the market for cotton, suppose the equilibrium price is \$10 per ton and the equilibrium quantity is 100 tons. If the government then imposes a price support of \$5 per ton,

- A) a deadweight loss is created.
- B) the market becomes more efficient.
- C) consumer surplus increases.
- D) producers' economic profits increase.
- E) None of the above answers is correct.

Answer: E

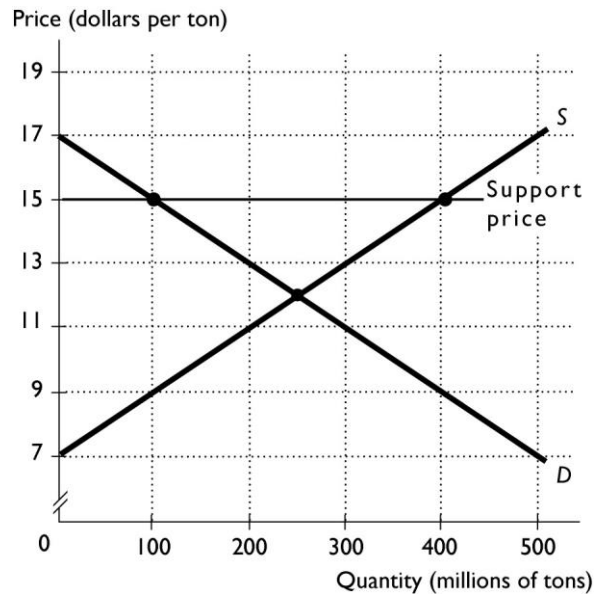
Topic: Price support, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: MR

AACSB: Analytical reasoning



16) The above figure shows the domestic market for wheat. Suppose this market is isolated from global competition. The with no government intervention, the equilibrium price is _____ and the equilibrium quantity is _____.

- A) \$15 per ton; 100 million tons
- B) \$14 per ton; 250 million tons
- C) \$12 per ton; 300 million tons
- D) \$12 per ton; 250 million tons
- E) \$15 per ton; 400 million tons

Answer: D

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

17) The above figure shows the domestic market for wheat. Suppose this market is isolated from global competition and the government intervenes by setting a support price of \$15 a ton. The quantity produced once the price support is in place is

- A) 400 million tons.
- B) 300 million tons.
- C) 100 million tons.
- D) 250 million tons.
- E) 200 million tons.

Answer: A

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

18) The above figure shows the domestic market for wheat. Suppose this market is isolated from global competition and the government intervenes by setting a support price of \$15 a ton. The quantity bought by domestic users once the price support is in place is

- A) 300 million tons.
- B) 400 million tons.
- C) 250 million tons.
- D) 200 million tons.
- E) 100 million tons.

Answer: E

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

19) The above figure shows the domestic market for wheat. Suppose this market is isolated from global competition and the government intervenes by setting a support price of \$15 a ton. To keep the price at this level, the government will _____ million tons of wheat.

- A) purchase 300
- B) sell 400
- C) purchase 100
- D) purchase 250
- E) sell 300

Answer: A

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

20) The above figure shows the domestic market for wheat. Suppose this market is isolated from global competition and the government intervenes by setting a support price of \$15 a ton. As a result of this price support, the total subsidy paid to wheat farmers equals

- A) \$4 billion.
- B) \$3 billion.
- C) \$3.5 billion.
- D) \$1.5 billion.
- E) \$4.5 billion

Answer: E

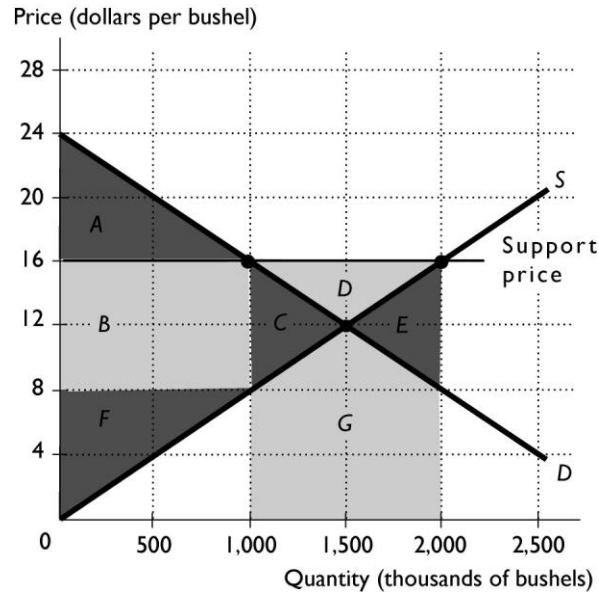
Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning



21) The above figure shows the domestic market for tomatoes. Suppose this market is isolated from global competition and there is a support price set at \$16. In this figure, what area equals the consumer surplus?

- A) area *A* + area *B* + area *C*
- B) area *A* + area *F*
- C) area *C* + area *D* + area *E* + area *G*
- D) area *A*
- E) area *F*

Answer: D

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

22) The above figure shows the domestic market for tomatoes. Suppose this market is isolated from global competition and there is a support price set at \$16. In this figure, what area equals the producer surplus?

- A) area *A* + area *B* + area *C*
- B) area *A* + area *F*
- C) area *B* + area *C* + area *D* + area *F*
- D) area *C* + area *D* + area *E* + area *G*
- E) area *F*

Answer: C

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

23) The above figure shows the domestic market for tomatoes. Suppose this market is isolated from global competition and there is a support price set at \$16. In this figure, what area equals the deadweight loss?

- A) area B + area C + area D + area F
- B) area E
- C) area C + area D + area E + area G
- D) area A
- E) area F

Answer: B

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

24) The above figure shows the domestic market for tomatoes. Suppose this market is isolated from global competition and there is a support price set at \$16. In this figure, what area equals the total subsidy paid to tomato farmers?

- A) area E
- B) area B + area C + area D + area F
- C) area C + area D + area E + area G
- D) area A
- E) area F

Answer: C

Topic: Price supports

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: KG

AACSB: Analytical reasoning

25) Price supports are generally used in

- A) labor markets.
- B) industrial markets.
- C) housing markets.
- D) markets for services.
- E) agricultural markets.

Answer: E

Topic: Price supports

Skill: Level 1: Definition

Section: Checkpoint 7.4

Status: STUDY GUIDE

AACSB: Analytical reasoning

- 26) To have an effective price support program, the government must
- i. isolate the domestic market from the world market
 - ii. pay the farmers a subsidy
 - iii. introduce a price floor

- A) i only
B) ii only
C) iii only
D) ii and iii
E) i, ii, and iii

Answer: E

Topic: Price supports

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: STUDY GUIDE

AACSB: Analytical reasoning

- 27) A price support directly sets the

- A) amount of production.
B) subsidy the government must receive from producers.
C) equilibrium quantity.
D) lowest price for which the good may be sold.
E) highest price for which the good may be sold.

Answer: D

Topic: Price supports

Skill: Level 1: Definition

Section: Checkpoint 7.4

Status: STUDY GUIDE

AACSB: Analytical reasoning

- 28) To keep the price at the level set by a price support, the government must

- A) buy some of the good.
B) sell some of the good.
C) receive a subsidy from the producers.
D) insure that imports are readily available.
E) be careful to always set the price support below the equilibrium price.

Answer: A

Topic: Price supports

Skill: Level 1: Definition

Section: Checkpoint 7.4

Status: STUDY GUIDE

AACSB: Analytical reasoning

29) With a price support program, who receives a subsidy?

- A) only consumers
- B) only producers
- C) the government
- D) importers
- E) Both consumers and producers receive a subsidy.

Answer: B

Topic: Price supports, subsidy

Skill: Level 1: Definition

Section: Checkpoint 7.4

Status: STUDY GUIDE

AACSB: Analytical reasoning

30) When a price support is set above the equilibrium price, producers _____ the quantity supplied and consumers _____ the quantity demanded.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease
- E) do not change; do not change

Answer: B

Topic: Price supports

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: STUDY GUIDE

AACSB: Analytical reasoning

31) An effective price support _____ producers and _____ a deadweight loss.

- A) has no effect on; does not create
- B) benefits; creates
- C) harms; creates
- D) benefits; does not create
- E) harms; does not create

Answer: B

Topic: Price supports

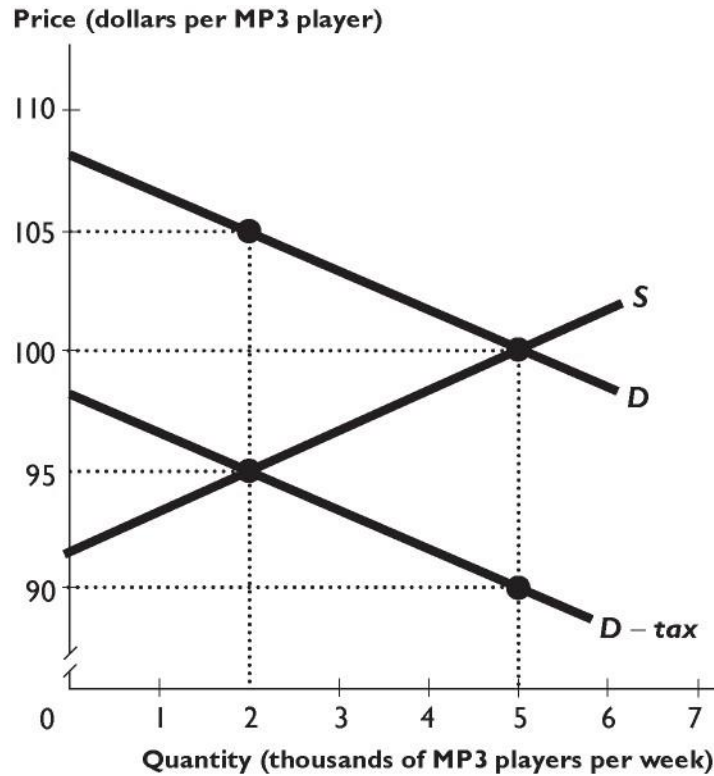
Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: STUDY GUIDE

AACSB: Analytical reasoning

7.5 Chapter Figures



The figure above shows the market for MP3 players, where S is the supply curve and D is the demand curve before any tax. The government imposes a \$10 per unit tax on buyers of MP3 players.

1) After the tax is imposed, the price (including the tax) paid by the buyer is _____ per MP3 player.

- A) \$105
- B) \$100
- C) \$95
- D) \$110
- E) \$90

Answer: A

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

2) After the tax is imposed, the price received by the seller is _____ per MP3 player.

- A) \$105
- B) \$100
- C) \$95
- D) \$110
- E) \$90

Answer: C

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

3) The tax _____ the price paid by the buyer by _____ per MP3 player.

- A) raises; \$5
- B) lowers; \$5
- C) raises; \$10
- D) lowers; \$10
- E) raises; \$7.50

Answer: A

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

4) The tax _____ the price received by the seller by _____ per MP3 player.

- A) raises; \$5
- B) lowers; \$5
- C) raises; \$10
- D) lowers; \$10
- E) lowers; \$2.50

Answer: B

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

- 5) After the tax is imposed, the government collects tax revenue of _____ a week.
- A) \$20,000
 - B) \$10,000
 - C) \$50,000
 - D) \$60,000
 - E) \$40,000

Answer: A

Topic: Tax incidence, government revenue

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

- 6) Based on the figure above, the burden of the tax
- A) is split equally between the buyer and the seller.
 - B) falls mostly on buyers.
 - C) falls mostly on sellers.
 - D) falls entirely on buyers.
 - E) falls entirely on sellers.

Answer: A

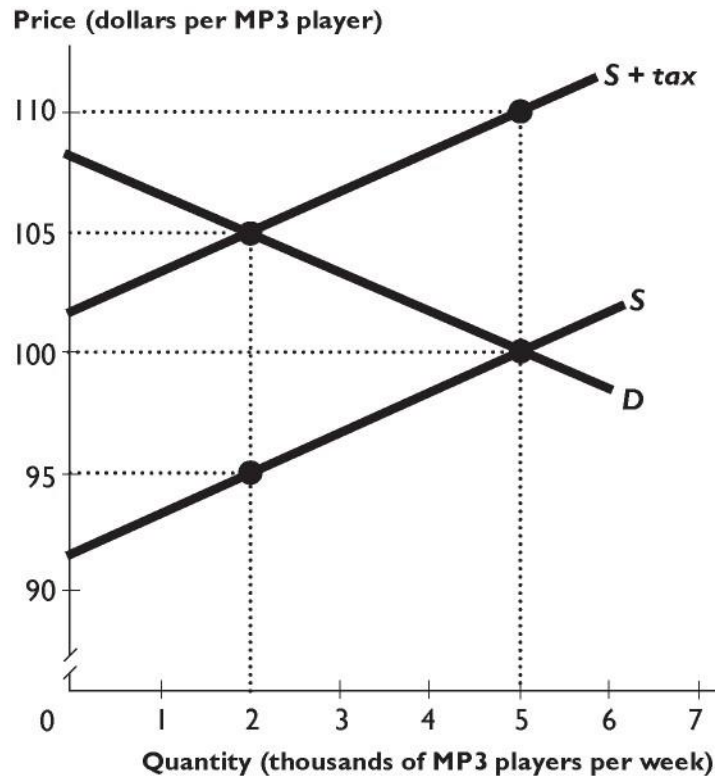
Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning



The figure above shows the market for MP3 players, where S is the supply curve and D is the demand curve before any tax is imposed. The government imposes a \$10 per unit tax on sellers of MP3 players.

7) Based on the figure above, after the tax is imposed, the price paid by the buyer is _____ per MP3 player.

- A) \$105
- B) \$100
- C) \$95
- D) \$110
- E) \$90

Answer: A

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

8) Based on the figure above, after the tax is imposed, the price received (and kept) by the seller is _____ per MP3 player.

- A) \$95
- B) \$105
- C) \$100
- D) \$110
- E) \$90

Answer: A

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

9) Based on the figure above, the tax _____ the price paid by the buyer by _____ per MP3 player.

- A) raises; \$5
- B) lowers; \$5
- C) raises; \$10
- D) lowers; \$10
- E) raises; \$7.50

Answer: A

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

10) Based on the figure above, the tax _____ the price received (and kept) by the seller by _____ per MP3 player.

- A) lowers; \$5
- B) raises; \$5
- C) raises; \$10
- D) lowers; \$10
- E) lowers; \$2.50

Answer: A

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

11) Based on the figure above, after the tax is imposed, the government collects tax revenue of _____ a week.

- A) \$20,000
- B) \$10,000
- C) \$50,000
- D) \$60,000
- E) \$40,000

Answer: A

Topic: Tax incidence, government revenue

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

12) Based on the figure above, the burden of the tax

- A) is split equally between the buyer and the seller.
- B) falls mostly on buyers.
- C) falls mostly on sellers.
- D) falls entirely on buyers.
- E) falls entirely on sellers.

Answer: A

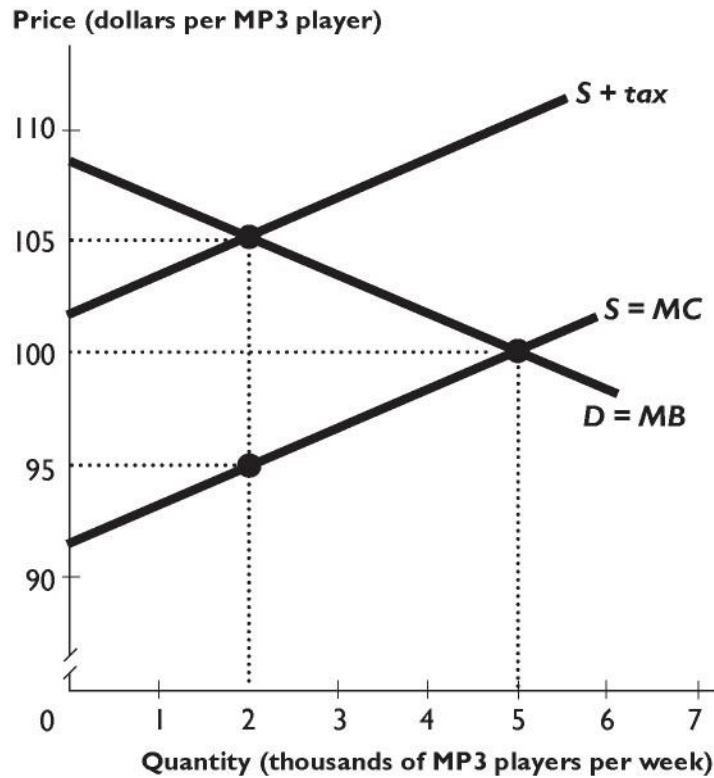
Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning



The figure above shows the market for MP3 players, where S is the supply curve and D is the demand curve before any tax is imposed. The government imposes a \$10 per unit tax on sellers of MP3 players.

13) In the figure above, at the market equilibrium with the tax, marginal benefit _____ marginal cost, and the quantity of MP3 players sold is _____.

- A) exceeds; inefficient
- B) is below; inefficient
- C) is below; efficient
- D) exceeds; efficient
- E) equals; efficient

Answer: A

Topic: Taxes, inefficiency

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

14) Based on the figure above, the deadweight loss from the tax is

- A) \$15,000 per week.
- B) \$20,000 per week.
- C) \$35,000 per week.
- D) \$17,500 per week.
- E) zero.

Answer: A

Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

15) Based on the figure above, after the tax is imposed the consumer surplus

- A) decreases by \$17,500.
- B) increases by \$17,500.
- C) decreases by \$7,500.
- D) increases by \$7,500.
- E) does not change.

Answer: A

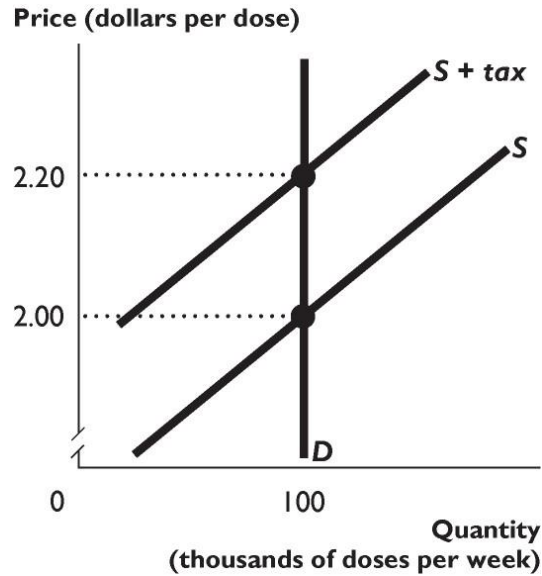
Topic: Taxes, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning



The figure above shows the demand (D) and supply (S) curves for insulin before any tax is imposed. The government imposes a \$0.20 a dose tax on sellers of insulin.

16) After the tax is imposed, the price paid by the buyer is _____, and the price received (and kept) by the seller is _____.

- A) \$2.20; \$2.00
- B) \$2.00; \$2.20
- C) \$2.00; \$2.00
- D) \$2.20; \$2.20
- E) \$2.00; \$1.80

Answer: A

Topic: Tax incidence, price wedge

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning

17) Based on the figure above, at the market equilibrium with the tax, marginal benefit _____ marginal cost, and the quantity of insulin sold is _____.

- A) equals; efficient
- B) exceeds; inefficient
- C) is below; inefficient
- D) is below; efficient
- E) exceeds; efficient

Answer: A

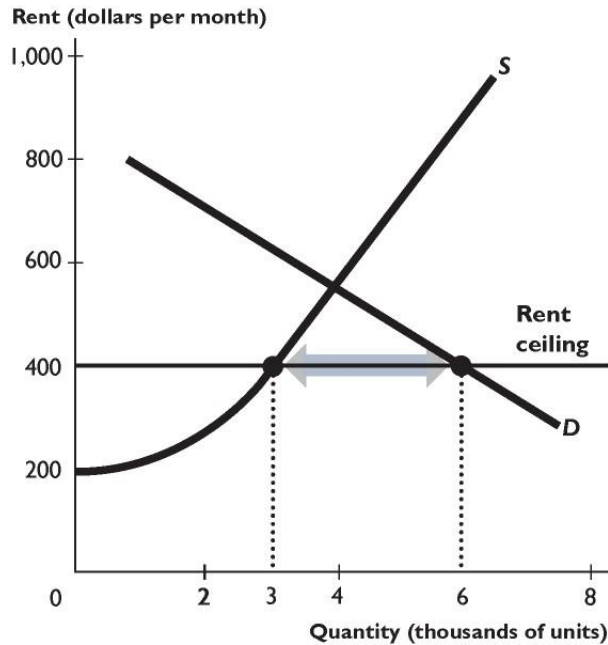
Topic: Taxes, inefficiency

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CO

AACSB: Analytical reasoning



The figure above shows the supply and demand curves in the market for rental housing. A rent ceiling is set at \$400 per month.

18) In the figure above, with the rent ceiling the quantity of housing supplied is _____ units, the quantity demanded is _____ units, and the quantity rented is _____ units.

- A) 3,000; 6,000; 3,000
- B) 3,000; 6,000; 6,000
- C) 3,000; 6,000; 4,000
- D) 3,000; 3,000; 3,000
- E) 4,000; 4,000; 4,000

Answer: A

Topic: Rent ceiling

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: CO

AACSB: Analytical reasoning

19) In the figure above, with the rent ceiling

- A) there is a shortage of 3,000 units.
- B) there is a surplus of 3,000 units.
- C) there is a surplus of 2,000 units.
- D) there is a shortage of 1,000 units.
- E) the market is in equilibrium.

Answer: A

Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: CO

AACSB: Analytical reasoning

20) In the figure above, with the rent ceiling _____ units of housing are available, and black market rents might be as high as _____ a month.

- A) 3,000; \$625
- B) 6,000; \$400
- C) 3,000; \$550
- D) 4,000; \$550
- E) 4,000; \$625

Answer: A

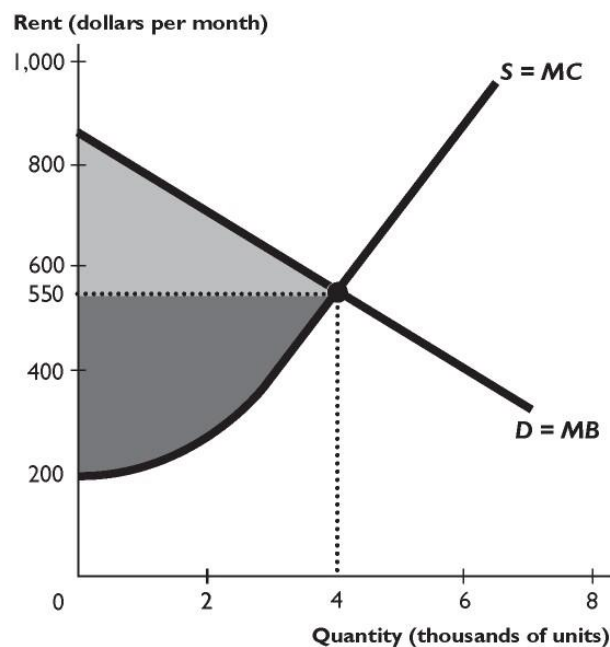
Topic: Rent ceiling, black market

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: CO

AACSB: Analytical reasoning



The figure above shows the supply and demand curves in the market for rental housing. A rent ceiling is set at \$400 per month.

21) As shown in the figure above, the rent ceiling

- A) decreases consumer surplus.
- B) increases producer surplus.
- C) decreases deadweight loss.
- D) increases the quantity of housing rented.
- E) is efficient.

Answer: A

Topic: Rent ceiling, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: CO

AACSB: Analytical reasoning

22) As shown in the figure above, the rent ceiling _____ consumer surplus and _____ producer surplus.

- A) decreases; decreases
- B) decreases; increases
- C) increases; increases
- D) increases; decreases
- E) decreases; does not change

Answer: A

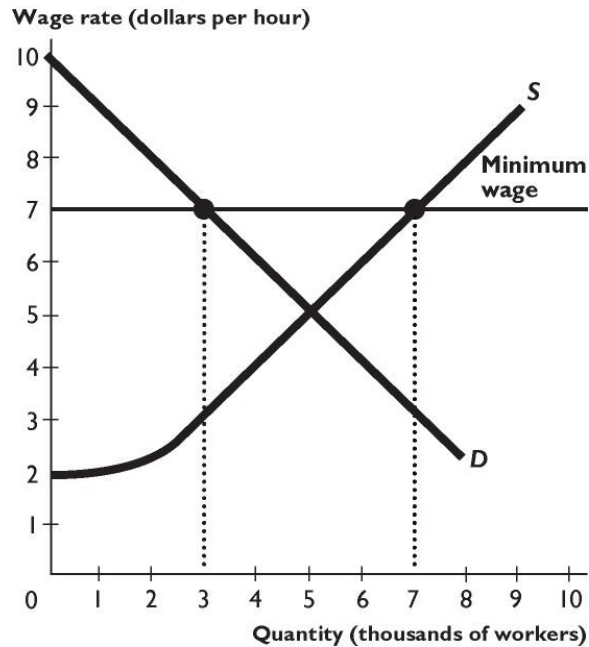
Topic: Rent ceiling, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: CO

AACSB: Analytical reasoning



The figure above shows supply and demand in the market for labor. The government introduces a minimum wage of \$7 per hour.

23) In the figure above, the number of workers employed is _____, and the wage paid is _____.

- A) 3,000; \$7 per hour
- B) 7,000; \$7 per hour
- C) 5,000; \$5 per hour
- D) 5,000; \$7 per hour
- E) 3,000; \$5 per hour

Answer: A

Topic: Minimum wage, employment

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: CO

AACSB: Analytical reasoning

24) In the figure above, the number of unemployed workers is

- A) 4,000.
- B) 3,000.
- C) 2,000.
- D) 5,000.
- E) zero.

Answer: A

Topic: Minimum wage, unemployment

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: CO

AACSB: Analytical reasoning

25) The figure above shows that the lowest wage rate for which someone is willing to work is

- A) \$3 an hour.
- B) \$5 an hour.
- C) \$6 an hour.
- D) \$7 an hour.
- E) \$4 an hour.

Answer: A

Topic: Minimum wage

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: CO

AACSB: Analytical reasoning

26) In the figure above, the deadweight loss is

- A) \$4,000 an hour.
- B) \$2,000 an hour.
- C) \$1,000 an hour.
- D) \$5,000 an hour.
- E) zero.

Answer: A

Topic: Minimum wage, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: CO

AACSB: Analytical reasoning

27) The figure above shows that the value of the resources used in job-search activity can be as large as _____ per hour.

- A) \$12,000
- B) \$8,000
- C) \$6,000
- D) \$4,000
- E) \$2,000

Answer: A

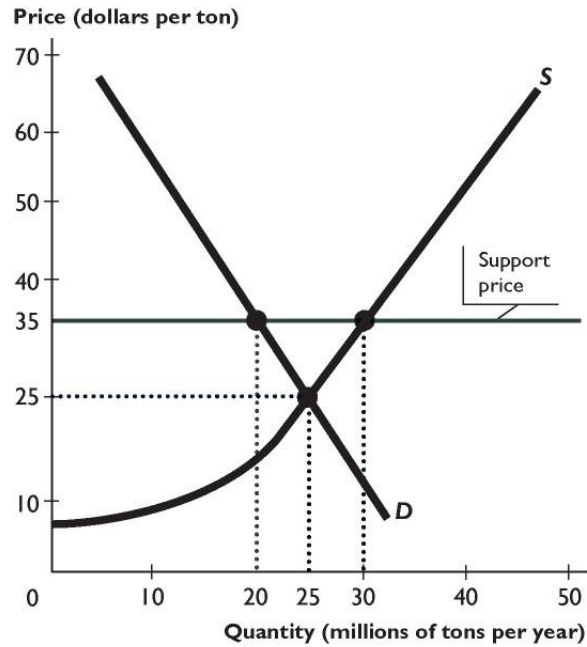
Topic: Minimum wage, search

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: CO

AACSB: Analytical reasoning



The figure above shows the market for sugar beets. The government intervenes in this market and sets a support price at \$35 a ton.

28) In the figure above, the quantity of sugar beets produced is _____ million tons per year, and the quantity bought by consumers is _____ million tons per year.

- A) 30; 20
- B) 20; 30
- C) 25; 20
- D) 20; 25
- E) 25; 25

Answer: A

Topic: Price supports

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CO

AACSB: Analytical reasoning

29) The figure above shows that to make the price support work, the government buys _____ million tons of sugar beets.

- A) 10
- B) 20
- C) 30
- D) 5
- E) 15

Answer: A

Topic: Price supports, subsidy

Skill: Level 2: Using definitions

Section: Checkpoint 7.4

Status: CO

AACSB: Analytical reasoning

30) The figure above shows that the government provides a subsidy to the farmers of _____ million.

- A) \$350
- B) \$1,050
- C) \$50
- D) \$100
- E) \$700

Answer: A

Topic: Price supports, subsidy

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: CO

AACSB: Analytical reasoning

31) The figure above shows that the government subsidy accounts for _____ percent of the farmers' revenue.

- A) 33
- B) 67
- C) 50
- D) 100
- E) 25

Answer: A

Topic: Price supports, subsidy

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: CO

AACSB: Analytical reasoning

- 32) The figure above shows that the deadweight loss from the government's policy is
- A) about \$350 million.
 - B) about \$25 million.
 - C) about \$50 million.
 - D) about \$100 million.
 - E) zero.

Answer: C

Topic: Price support, deadweight loss

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: CO

AACSB: Analytical reasoning

7.6 Integrative Questions

1) The shortage created by a rent ceiling below the equilibrium rent is smallest when the demand for housing is _____ and the supply of housing is _____.

- A) elastic; elastic
- B) elastic; inelastic
- C) inelastic; elastic
- D) inelastic; inelastic
- E) unit elastic; unit elastic

Answer: D

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: MR

AACSB: Analytical reasoning

2) A regulation that sets the highest price at which it is legal to trade a good is a

- A) production quota.
- B) price floor.
- C) price support.
- D) price ceiling.
- E) subsidy.

Answer: D

Topic: Integrative

Skill: Level 1: Definition

Section: Integrative

Status: MR

AACSB: Analytical reasoning

3) A regulation that sets the lowest price at which it is legal to trade a good is a

- A) search ceiling.
- B) price floor.
- C) production ceiling.
- D) price ceiling.
- E) subsidy.

Answer: B

Topic: Integrative

Skill: Level 1: Definition

Section: Integrative

Status: MR

AACSB: Analytical reasoning

4) If the government imposes an effective _____, output decreases and _____ increases.

- A) price support; consumer surplus
- B) price floor; consumer surplus
- C) price support; total revenue
- D) price floor; marginal benefit to consumers
- E) price ceiling; efficiency

Answer: C

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: CD

AACSB: Analytical reasoning

5) If the government imposes an effective _____, a deadweight loss _____.

- A) price floor; does not occur
- B) price ceiling; does not occur
- C) price ceiling; occurs
- D) price support; does not occur
- E) Both answers C and D are correct.

Answer: C

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: CD

AACSB: Analytical reasoning

6) Producers favor a _____ because _____.

- A) price ceiling; the equilibrium price increases
- B) price support; the deadweight loss is minimized
- C) price ceiling; total revenue increases
- D) price support; total revenue increases
- E) price ceiling; consumer surplus increases

Answer: D

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: CD

AACSB: Analytical reasoning

7) In order to have an impact, a _____ must be set below the equilibrium price and when this occurs, _____.

- A) price ceiling; consumer surplus increases
- B) price floor; consumer surplus decreases
- C) price ceiling; producer surplus decreases
- D) price support; total revenue increases
- E) price support; consumer surplus increases

Answer: C

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: CD

AACSB: Analytical reasoning

8) Which of the following describes a difference between a price support and a price ceiling?

- A) A price support creates a deadweight loss while a price ceiling does not.
- B) A price ceiling is a regulated price while a price support is a regulated quantity.
- C) A price support decreases the quantity while a price ceiling does not.
- D) A price ceiling increases the price above the equilibrium price while a price support does not.
- E) A price support attempts to raise the price above the equilibrium price while a price ceiling does not.

Answer: E

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: CD

AACSB: Analytical reasoning

- 9) Both price supports and a price floor can
- A) create a deadweight loss.
 - B) decrease output below the equilibrium quantity.
 - C) decrease the price below the equilibrium price.
 - D) increase consumer surplus.
 - E) have no effect on producer surplus.

Answer: A

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: MR

AACSB: Analytical reasoning

10) Which of the following is true?

- i. A price ceiling set above the equilibrium price has no effects.
- ii. A price ceiling set below the equilibrium price creates a surplus.
- iii. A price floor set above the equilibrium price has no effects.

A) Only i

B) Only ii

C) Only iii

D) i and ii

E) ii and iii

Answer: A

Topic: Integrative

Skill: Level 2: Using definitions

Section: Integrative

Status: CO

AACSB: Analytical reasoning

11) Which of the following is true?

- i. A price ceiling is inefficient but fair.
- ii. A price floor is inefficient and unfair.
- iii. A price support increases the quantity produced.

A) Only i

B) Only ii

C) Only iii

D) i and ii

E) ii and iii

Answer: B

Topic: Integrative

Skill: Level 2: Using definitions

Section: Integrative

Status: CO

AACSB: Analytical reasoning

12) Which of the following is true?

- i. A price ceiling set below the equilibrium price decreases search activity.
- ii. A minimum wage is an example of a price ceiling.
- iii. A price support decreases the quantity consumed.

- A) Only i
- B) Only ii
- C) Only iii
- D) i and iii
- E) ii and iii

Answer: C

Topic: Integrative

Skill: Level 2: Using definitions

Section: Integrative

Status: CO

AACSB: Analytical reasoning

13) Which of the following is true?

- i. A price support is inefficient.
- ii. A price floor set above the equilibrium price creates a surplus.
- iii. A price ceiling set above the equilibrium price creates a black market.

- A) Only i
- B) Only ii
- C) Only iii
- D) i and ii
- E) ii and iii

Answer: D

Topic: Integrative

Skill: Level 2: Using definitions

Section: Integrative

Status: CO

AACSB: Analytical reasoning

14) Which of the following can create a deadweight loss?

- i) price supports
- ii) price floor
- iii) price ceiling

- A) i only
- B) i and iii
- C) ii and iii
- D) i, ii and iii
- E) i and ii

Answer: D

Topic: Integrative

Skill: Level 3: Using models

Section: Integrative

Status: MR

AACSB: Analytical reasoning

7.7 Essay: Taxes on Buyers and Sellers

1) When a tax is imposed on a good, the resulting rise in the equilibrium price is usually less than the amount of the tax itself. Why doesn't the equilibrium price rise by the full amount of the tax?

Answer: Because firms collect taxes from consumers and send them to the government, the taxes drive a wedge between the price or dollar amount firms receive from consumers and the price or dollar amount they get to keep for selling the good. Firms would like to raise the price by the full amount of the tax. In this case, the amount firms receive would stay the same and so the firms would continue to supply the same quantity of the product. But as the price rises, the quantity demanded decreases. Hence, *if* the price rose by the full amount of the tax, the quantity supplied would not change and the quantity demanded would decrease. There would be a surplus of the product. The surplus forces the price downward, thereby making the rise in price less than the full amount of the tax. As a result, in the equilibrium the price generally does not rise by the full amount of the tax.

Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

2) How does the elasticity of demand affect the incidence of a tax?

Answer: For a given elasticity of supply, the more elastic the demand, the smaller the share of a tax that falls on the buyer and hence the larger the share of a tax that falls on the seller.

Topic: Tax incidence

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: MR

AACSB: Analytical reasoning

3) Explain under what conditions a sales tax on a specific good would be paid entirely by buyers.

Answer: Buyers pay all of a tax when the demand for the product is perfectly inelastic or when the supply is perfectly elastic.

Topic: Tax incidence and the elasticity of demand

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: TS

AACSB: Analytical reasoning

4) Which would be a better source of tax revenue for the government, a good with elastic or a good with an inelastic demand? Explain your reasoning.

Answer: Inelastic goods are better sources of tax revenue because, as price rises, the equilibrium quantity does not decrease by as much as that of a good with elastic demand. The government's tax revenue, which depends on the equilibrium quantity of the good, is larger when a good with an inelastic demand is taxed.

Topic: Tax incidence and the elasticity of demand

Skill: Level 5: Critical thinking

Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning

5) Suppose the demand for saline solution is perfectly inelastic for contact lens wearers. If the government imposes a tax on saline solution, what occurs? Be sure to tell what happens to the price paid by the buyers and discuss the incidence of the tax.

Answer: If demand is perfectly inelastic, then no matter what the price, buyers will not decrease their quantity demanded when the price rises. Hence the tax incidence will fall fully on the consumers. So, in the case of saline solution, the price paid by the buyers will rise by the full amount of the tax and buyers pay the entire amount of the tax.

Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

6) Suppose the government decides to tax salt. The demand for salt is inelastic and the supply is quite elastic. Who bears most of the tax incidence and pays most of this tax?

Answer: Buyers of salt pay most of the tax because their demand for salt is inelastic.

Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

7) Consider the market for dining at Mexican restaurants. Suppose the price elasticity of demand for Mexican food is 1.23 and the price elasticity of supply is 0.47. If the government imposes a tax on Mexican food, do consumers or producers pay most of the tax? Why?

Answer: Producers pay most of the tax because supply is inelastic while demand is elastic.

There are many substitutes for the good, so unless producers are willing to pay most of the tax, consumers spend their money on other types of food.

Topic: Tax incidence and the elasticity of supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning

8) Is the deadweight loss from a sales tax on a product larger the more inelastic the demand for the good?

Answer: No, the deadweight loss from a sales tax is *smaller* the more inelastic the demand for the good.

Topic: Taxes, deadweight loss

Skill: Level 2: Using definitions

Section: Checkpoint 7.1

Status: MR

AACSB: Analytical reasoning

9) In the Village of Punjab, Sheryl owns a well, which is the only source of drinking water. The supply of water is perfectly inelastic at a quantity of 1,000 gallons of water per day. At a price of \$2.00 per gallon, the quantity demanded per day is 1,000 gallons. The government imposes a \$0.50 per gallon tax.

a. After the tax is imposed, what is the price paid by the villagers? What is the price received by Sheryl?

b. How much revenue does the government collect?

c. What fraction of the tax does Sheryl pay? What fraction is paid by the villagers?

Answer:

a. Because the supply is perfectly inelastic, no matter what price Sheryl receives, she supplies 1,000 gallons of water per day. Because she supplied 1,000 gallons of water per day, the price paid by the villagers remains equal to \$2.00, the price at which 1,000 gallons per day is the quantity demanded. Sheryl receives \$1.50, the \$2.00 paid by the villagers minus the \$0.50 sent to the government as the tax.

b. The government receives \$500 in tax revenue.

c. Sheryl pays 100 percent of the tax because the price she receives falls by the full amount of the tax. The villagers pay none of the tax because the price they pay does not change.

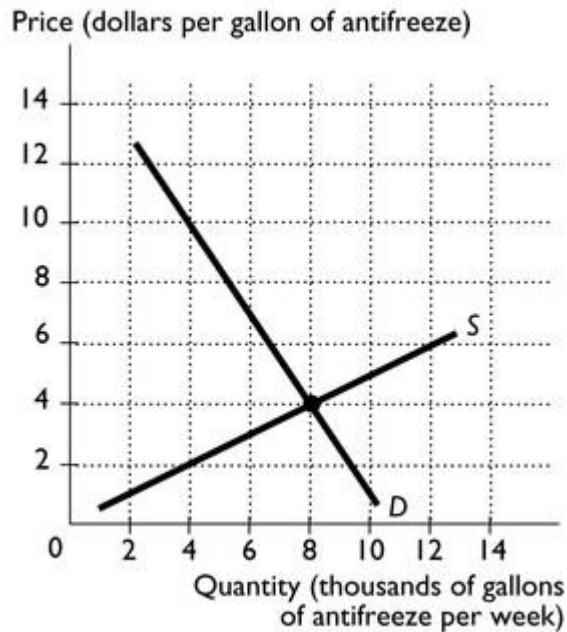
Topic: Tax incidence and the elasticity of supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: SA

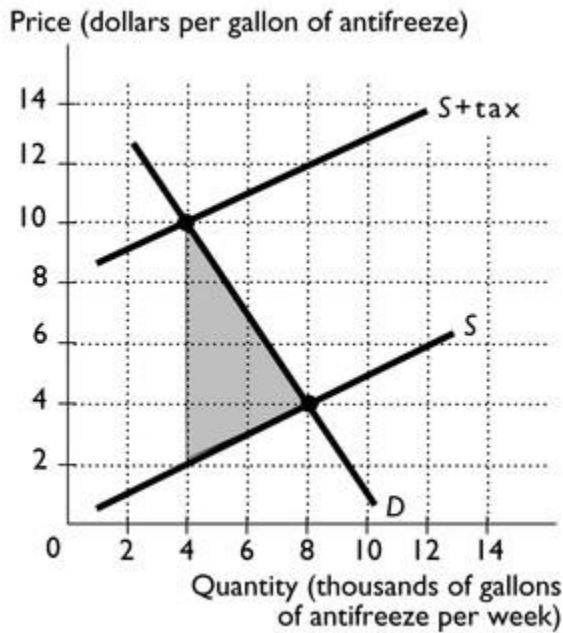
AACSB: Analytical reasoning



10) The figure above illustrates the market for antifreeze. Suppose the government decides to impose an \$8 sales tax on every gallon of antifreeze sold.

- In the figure, illustrate the effect the tax has on the market for antifreeze.
- What is the equilibrium price of a gallon of antifreeze before the tax? What is the price paid by buyers after the tax?
- What is the equilibrium quantity of antifreeze before the tax? What is the equilibrium quantity after the tax?
- What is the revenue collected by the government from this tax?
- Do buyers or sellers bear the largest burden of the tax?
- Illustrate the deadweight loss created by the tax.

Answer:



- The tax shifts the supply curve, as illustrated above.
- Before the tax, the price was \$4 per gallon. After the tax, buyers pay \$10 per gallon.
- Before the tax the equilibrium quantity was 8,000 gallons of antifreeze. After the tax, the quantity is 4,000 gallons of antifreeze.
- The government collects \$32,000 in tax revenue per week.
- Buyers bear the largest incidence of the tax because the price they pay rises by \$6, from \$4 per gallon to \$10 per gallon.
- The deadweight loss is equal to the area of the darkened triangle in the figure.

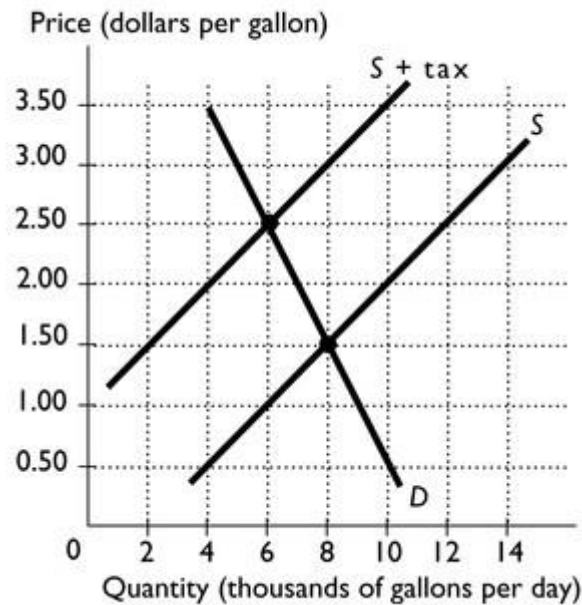
Topic: Tax incidence

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning



11) The figure above shows the market for gasoline. The government has imposed a tax on gasoline.

- What is the amount of the tax per gallon of gasoline?
- How much tax revenue will government collect from this tax?
- How much of the tax is paid by consumers? How much is paid by producers? Which is more elastic, the supply or demand for gasoline?

Answer:

- The tax is \$1.50 per gallon, the amount by which the supply curve has been shifted upward.
- The government collects in tax revenue 6,000 gallons per day times \$1.50 tax per gallon or \$9,000.
- Consumers pay \$1 of the tax, as the price they pay rises from \$1.50 to \$2.50 per gallon. Producers pay \$0.50 of the tax, as the price they receive falls from \$1.50 to \$1.00 per gallon. The supply is more elastic because suppliers pay a smaller fraction of the tax than do buyers.

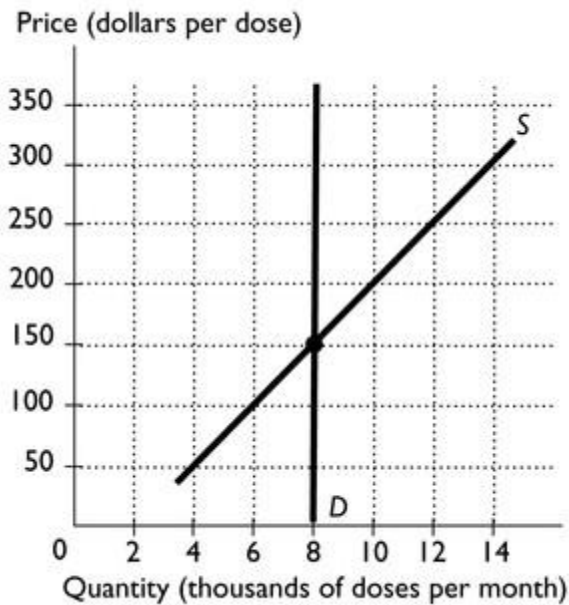
Topic: Tax incidence

Skill: Level 4: Applying models

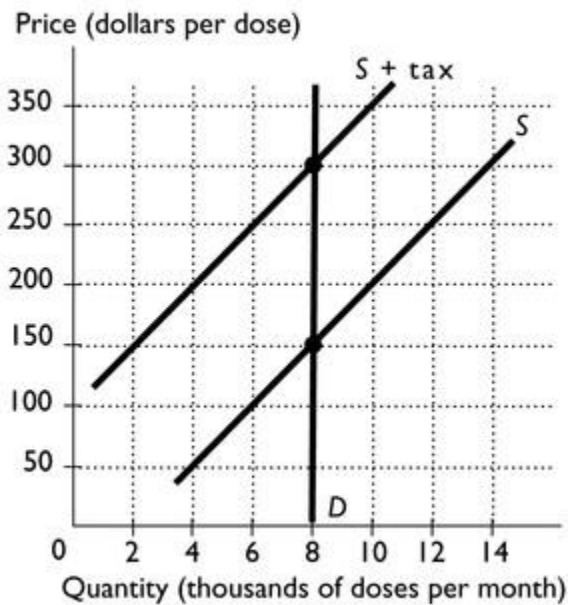
Section: Checkpoint 7.1

Status: SB

AACSB: Analytical reasoning



12) The figure above shows the market for a life-saving drug. Suppose the government imposes a \$150 tax per dose on the drug. Show and describe the impact on the market. Who pays this tax?
 Answer:



The tax decreases the supply and shifts the supply curve leftward. As shown in the figure, the vertical difference between the old supply curve and the new one is the amount of the tax, \$150 per dose. The price of the drug rises from \$150 per dose before the tax to \$300 per dose after the tax. The quantity remains constant, at 8,000 doses per month. Because demand is perfectly inelastic, the price rose by the full amount of the tax so buyers pay the entire tax.

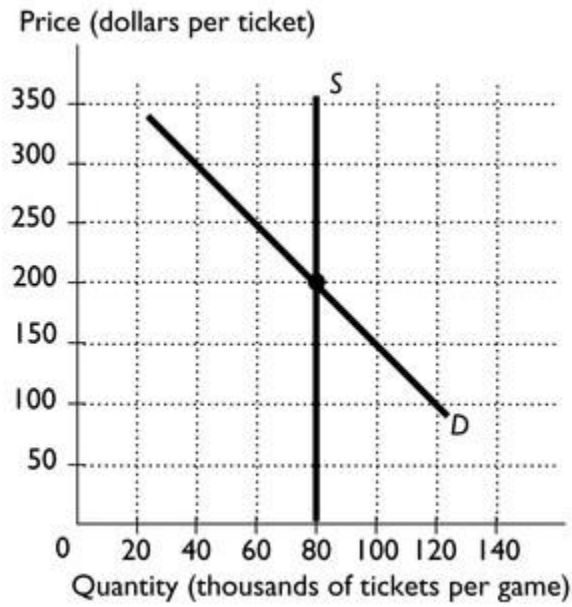
Topic: Tax incidence and the elasticity of demand

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: CD

AACSB: Analytical reasoning



13) The figure above shows the market for tickets to the Super Bowl the day of the game.

Suppose the government imposes an entertainment tax of \$100 per ticket.

- What is the equilibrium price of a Super Bowl ticket before the tax? What is the price paid by buyers after the tax? What is the price received by sellers after the tax?
- What is the equilibrium quantity of tickets before the tax? What is the equilibrium quantity after the tax?
- Do buyers or sellers bear most of the incidence of the tax?

Answer:

- The equilibrium price before the tax is \$200 for a ticket. After the tax, buyers still pay \$200 per ticket. Sellers, however, receive only \$100 (= \$200 price paid by a buyer minus the \$100 tax) per ticket.
- Before the tax, the equilibrium quantity was 80,000 tickets. After the tax the quantity is still 80,000 tickets.
- Sellers bear the entire tax incidence because they pay all the tax and buyers pay none of the tax. In other words, the price that a buyer pays does not change—it remains equal to \$200. Hence buyers pay none of the tax. However, the price received by sellers falls from \$200 per ticket to \$100. Hence sellers pay the full amount of the \$100 tax, which was to be expected because the supply of tickets is perfectly inelastic.

Topic: Tax incidence and the elasticity of supply

Skill: Level 3: Using models

Section: Checkpoint 7.1

Status: JC

AACSB: Analytical reasoning

7.8 Essay: Price Ceilings

1) In the housing market, if a rent ceiling of \$600.00 is imposed when the equilibrium rent is \$500.00, why will nothing change?

Answer: A rent ceiling is the maximum legal rent. Generally, the government imposes the ceiling when the equilibrium rent is considered too high. If, however, the rent ceiling (\$600.00) is above the equilibrium rent (\$500.00), people are *already* paying a rent lower than legal maximum. As a result, nothing changes and so this price ceiling is ineffective.

Topic: Rent ceiling

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

2) What are the effects of a rent ceiling set below the equilibrium rent?

Answer: A rent ceiling is the maximum legal rent. If the rent ceiling is set below the equilibrium rent, the rent ceiling creates a shortage of apartments. Consumer and producer surplus are both reduced. Hopeful renters face must engage in increased search activity. In order to rent an apartment, renters and landlords might engage in black market activity that effectively raises the rent.

Topic: Rent ceiling

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: CD

AACSB: Analytical reasoning

3) In the 1980s, one of the most common sights in the socialist countries, such as the former Soviet Union and North Korea, were long lines for bread, sugar, and other necessities. These countries had price ceilings on these necessities. Some of the socialist nations, such as the former Soviet Union, have moved to a market economy by lifting the price ceilings, while others, such as North Korea, have retained their price ceilings. What prediction do you make about the presence (or absence) of long lines today in the former Soviet Union and North Korea? Explain your answer.

Answer: The long lines have disappeared in the former Soviet Union but are still present in North Korea. The socialist countries had price ceilings on necessities that were below the equilibrium price. These ceilings created shortages, thus the long lines. In the countries that have lifted the price ceilings, the price has risen toward the equilibrium price, thereby eliminating the shortages and long lines. In the nations that have retained the price ceilings, the shortages and hence the long lines have persisted.

Topic: Price ceiling, shortages

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SA

AACSB: Analytical reasoning

4) Explain why in cities such as New York City that have rent ceiling laws, so many people who work in the city commute from outside the city.

Answer: Rent ceilings decrease the quantity supplied of housing. So many people who work in the city and would like to live in the city cannot find housing. As a result, they must live outside the city and commute to work.

Topic: Rent ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: TA

AACSB: Analytical reasoning

5) Suppose that apartments rent for \$1,300 a month in San Francisco, California and \$850 a month in Los Angeles, California. If the state of California passes a state-wide rent ceiling for apartments of \$1,100 a month, what occurs in the two cities?

Answer: The rent ceiling is below the equilibrium rent in San Francisco. A shortage of apartments occurs as the quantity of apartments demanded increases and the quantity supplied decreases. The shortage becomes even larger as time passes because, with the rent ceiling, landlords have no incentive to maintain existing apartments or to build new ones. A black market for apartments will emerge, with bribery and "key money" becoming common.

In Los Angeles, the outcome differs. The rent ceiling is above the equilibrium rent and has no impact on the quantity demanded or the quantity supplied. If, however, Los Angeles grows so that the demand for housing increases enough, the time may come when the rent ceiling is below the equilibrium rent in Los Angeles, in which case the Los Angeles apartment market also would be marked by a shortage and black market.

Topic: Rent ceiling, shortage

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

6) Why do rent ceilings lead to shortages and black markets?

Answer: Rent ceilings that are set below the market equilibrium price for apartments lead to shortages for two reasons. First, the lower price increase the quantity of apartments demanded. Second, the quantity of apartments supplied decreases and, over time, the supply decreases even more because of the lower rent. When the quantity demanded exceeds the quantity supplied, a shortage is created. Faced with the inability to obtain the product they want, in this case, housing, people use bribes and other inducements in the black market to increase their chances of moving up the waiting list that emerges in the rent-controlled apartment market. Not everyone participates in the black market, but rent ceilings will favor those people willing to engage in illegal transactions.

Topic: Rent ceiling, black market

Skill: Level 2: Using definitions

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning

Rent (dollars per month)	Quantity <u>demande</u> d (housing units)	Quantity <u>supplye</u> d
1,000	150	350
900	200	300
800	250	250
700	300	200
600	350	150

7) The table above gives the demand and supply schedules for the housing market in a small town. If a rent ceiling of \$600 a month is imposed, what is the quantity demanded, the quantity supplied, and the shortage of housing?

Answer: The quantity demanded is 350 units, the quantity supplied is 150 units, and the shortage is 200 units.

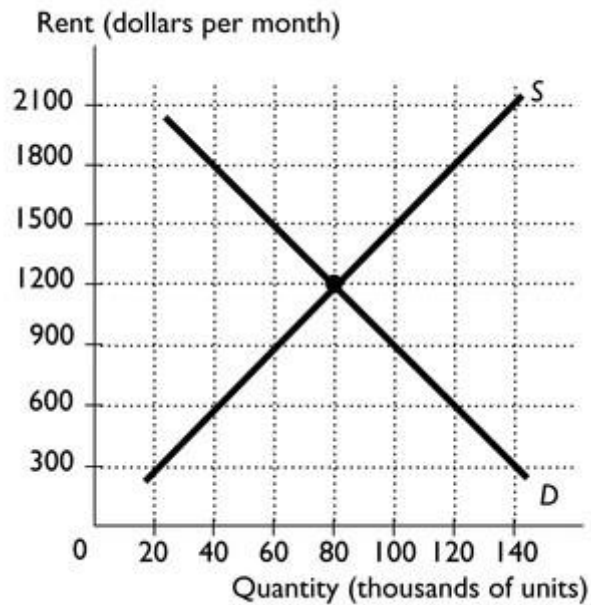
Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: TS

AACSB: Analytical reasoning



8) The figure above illustrates the current market for apartments in Washington, D.C.

- a. If the local government imposes a price ceiling of \$1,500 per month, is there a shortage? If so, how much, if not, why not?
- b. If the local government imposes a price ceiling of \$900 per month, is there a shortage? If so, how much, if not, why not?

Answer:

- a. There is not a shortage. The equilibrium rent is \$1,200 a month. Because the rent ceiling is above the equilibrium rent, it has no effect.
- b. There is a shortage. At a rent of \$900 per month, the quantity of units demanded is 100,000 and the quantity of units supplied is 60,000. Hence there is a shortage of 40,000 units.

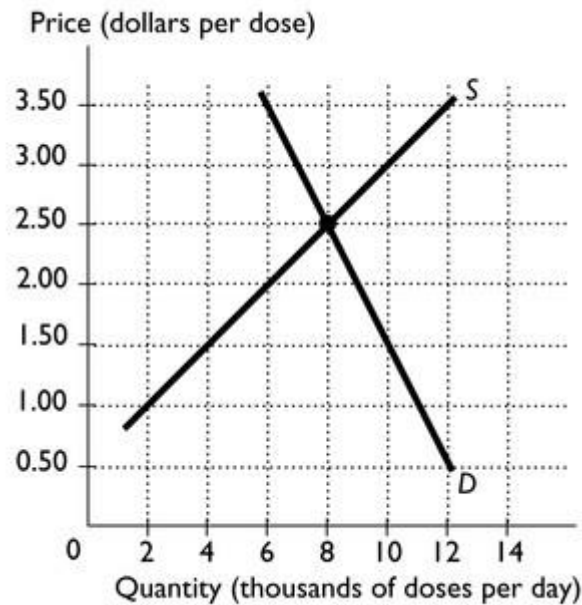
Topic: Rent ceiling, shortage

Skill: Level 3: Using models

Section: Checkpoint 7.2

Status: JC

AACSB: Analytical reasoning



9) The above figure shows the market for a prescription drug. What is the equilibrium price of the drug? How many doses are purchased? Suppose the government imposes a price ceiling of \$1.50 a dose. How many doses are purchased after the price ceiling is imposed?

Answer: The equilibrium price is \$2.50 per dose. The number of doses purchased is the equilibrium quantity, 8,000 doses per day. After the price ceiling is imposed, the number of doses purchased is 4,000 per day, which is equal to the quantity of doses supplied at the price of \$1.50 per dose.

Topic: Price ceiling, shortage

Skill: Level 4: Applying models

Section: Checkpoint 7.2

Status: SB

AACSB: Analytical reasoning

7.9 Essay: Price Floors

1) Explain why a price floor set below the equilibrium price is ineffective.

Answer: Price floors are legal minimums; it is legal to charge the floor price, or higher. If the equilibrium price falls in the legal range, that is, the equilibrium price is above the price floor so that the price floor is below the equilibrium price, then the price floor has no effect on the market because the market price does not change.

Topic: Price floor

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

2) Compare and contrast a price ceiling and a price floor.

Answer: A price ceiling is the maximum legal price that may be charged. A price floor is the minimum legal price that may be charged. For a price ceiling or a price floor to have an effect, they must make the equilibrium price illegal. So, an effective price ceiling is set below the equilibrium price while an effective price floor is set above the equilibrium price. A price ceiling creates a shortage of the good while a price floor creates a surplus. Both create inefficiency because the marginal benefit of the last unit consumed no longer equals the marginal cost of the last unit produced.

Topic: Price ceiling and price floor

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: CD

AACSB: Analytical reasoning

3) Will an increase in the minimum wage create more unemployment if the supply and demand for labor are highly elastic or highly inelastic?

Answer: An increase in the minimum wage creates less unemployment when the supply and demand for labor are highly inelastic. If the supply and demand for labor are highly elastic, an increase in the minimum wage leads to more unemployment because the quantity of labor supplied increases significantly and the quantity of labor demanded decreases significantly. If they are inelastic, an increase in the minimum wage leads to only a small decrease in the quantity of labor demanded and only a small increase in the quantity of labor supplied, so that the resulting unemployment is not very large.

Topic: Minimum wage, unemployment

Skill: Level 5: Critical thinking

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

4) Why would an increase in the minimum wage to \$15 per hour lead to more unemployment for teenage and low-skilled workers?

Answer: Many teenage and low-skilled workers earn far less than \$15 per hour. Hence a price floor in the labor market that "guaranteed" a wage of \$15 per hour, that is, a minimum wage of \$15 per hour, would have a double-edged effect. First, the quantity of labor supplied would increase because more people would be willing and able to work for the higher wage. Indeed, some high school students would drop out of school in order to obtain work if they thought they would be paid \$15 an hour. Second, many businesses would be unwilling and unable to pay \$15 per hour and would therefore lay off many teenage and low-skilled workers. In other words, the quantity of labor supplied increases and the quantity of labor demanded decreases. The resulting surplus of labor means a higher unemployment rate for the very people the minimum wage is designed to help.

Topic: Minimum wage, unemployment

Skill: Level 2: Using definitions

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

5) Explain why low-skilled workers find that their employment opportunities are less with a minimum wage.

Answer: A minimum wage set above the equilibrium wage rate decreases the quantity of labor demanded, so employment decreases with a minimum wage. This effect is particularly strong in the market for low-skilled labor, because it is low-skilled labor that is paid low wage rates. Thus it is low-skilled workers for whom the decrease in employment is severe.

Topic: Minimum wage, unemployment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

6) How does the elasticity of demand for labor affect the deadweight loss from an increase in the minimum wage? Why?

Answer: The more elastic the demand for labor, the greater the deadweight loss from increasing the minimum wage. Essentially, the more elastic the demand for labor, the larger the decrease in the quantity of labor demanded when the minimum wage rate rises. As a result, the larger the decrease in employment and hence the greater is the deadweight loss.

Topic: Minimum wage, unemployment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: TS

AACSB: Analytical reasoning

7) Discuss the inefficiencies created by a price floor.

Answer: A price floor prevents the efficient allocation of resources. If a price floor is set above the equilibrium price, the quantity of the good or service supplied increases and the quantity demanded decreases, so that a surplus results. The minimum wage is a price floor. If the minimum wage is set above the equilibrium wage rate, the surplus of labor means increased unemployment. Similar to all price floors, the minimum wage creates inefficiency. The minimum wage leads to inefficiency because at the minimum wage, marginal benefit to a firm from hiring another worker exceeds the marginal cost to a worker from working.

Topic: Price floor, inefficiency

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

8) Who are minimum wages designed to help? Do they succeed? What is their effect on society?

Answer: Minimum wages are designed to improve the incomes of low-wage earners. They do successfully raise the wages of those fortunate enough to find jobs at the minimum wage; however they reduce the chance of finding a job by decreasing the quantity of labor demanded. The low-wage earners who cannot find a job with a minimum wage in place are harmed.

Minimum wages harm society because they create a deadweight loss. In addition to the deadweight loss, minimum wages also:

- increase the amount of time it takes to find a job (search activity).
- encourage illegal hiring at wages below the minimum wage rate.
- block voluntary exchange at the equilibrium wage.

Topic: Minimum wage, support

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SB

AACSB: Analytical reasoning

9) We know that the minimum wage causes unemployment. So, why does the government impose one?

Answer: The main reason for the minimum wage is because its supporters outnumber its opponents. Some supporters, such as labor unions, have a self-interested motivation for seeing a high minimum wage. A high minimum wage increases the cost of low-skilled labor, which is a substitute for high-skilled union labor. Hence firms decrease the quantity of low-skilled labor they demand and increase their demand for union labor, thereby increasing the employment and wages of union labor. Other supporters point to the fact that the minimum wage helps raise the incomes of low-skilled workers who retain jobs. Also, if the demand and supply of low-skilled workers is inelastic, the resulting unemployment will be low and so supporters might believe that helping some low-skilled workers is worth harming others.

Topic: Minimum wage, support

Skill: Level 4: Applying models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning

Price (dollars per scooter)	Quantity demanded (scooters per week)	Quantity supplied (scooters per week)
70	120	60
80	110	80
90	100	100
100	90	120
110	80	140
120	70	160

10) The table above gives the supply and demand schedules for scooters. Because of increased injuries sustained by children riding scooters, Citizens Against Scooter Accidents successfully lobbies the government to impose a price floor of \$80.00 on scooters.

- What is the quantity demanded and supplied after the price floor has been imposed?
- Is there any shortage or surplus at this price floor? If so, how much?
- If the price floor is raised to \$110.00, what is the quantity demanded and supplied?
- At a price floor of \$110.00, is there any shortage or surplus? If so, how much?

Answer:

- The quantity demanded and supplied is 100 scooters at \$90, the equilibrium price. Because the price floor, which is the legal minimum price, is below the equilibrium price, it has no effect. The price stays at the equilibrium price of \$90 per scooter and the quantity remains at the equilibrium quantity of 100 scooters.
- There is no surplus or shortage at a price floor of \$90 per scooter.
- The quantity demanded at \$110 is 80 scooters and quantity supplied is 140.
- There is a surplus. The surplus equals the quantity supplied, 140 scooters, minus the quantity demanded, 80 scooters, or a 60 scooters per week surplus.

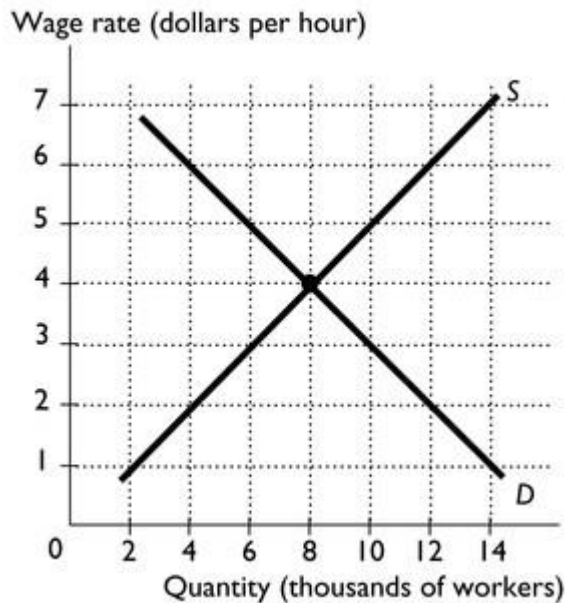
Topic: Price floor, surplus

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: SA

AACSB: Analytical reasoning



11) The figure above illustrates the current market for fast-food workers in Baltimore.

- Without any government intervention, what is the equilibrium wage rate and amount of employment?
- If the city government imposes a minimum wage of \$3 an hour, what is the amount of employment? Does the minimum wage create any unemployment? Why or why not?
- If the city government imposes a minimum wage of \$6 an hour, what is the amount of employment? Does the minimum wage create any unemployment? Why or why not?

Answer:

- The equilibrium wage rate is \$4 an hour and the equilibrium amount of employment is 8,000 workers.
- Employment remains 8,000 workers. The minimum wage does not create any unemployment. The \$3 per hour minimum wage does not bring about any unemployment because it is below the equilibrium wage rate.
- Employment decreases to 4,000 workers, the quantity of labor demanded at a wage rate of \$6 per hour. At the wage rate of \$6 per hour, the quantity of labor supplied is 12,000 workers and the quantity of labor demanded is 4,000 workers. Hence there are 8,000 workers unemployed. The minimum wage of \$6 an hour creates unemployment because it is higher than the equilibrium wage rate. As a result, the quantity of labor supplied increases and the quantity of labor demanded decreases, leading to a situation of excess supply, or unemployment.

Topic: Minimum wage, employment and unemployment

Skill: Level 3: Using models

Section: Checkpoint 7.3

Status: JC

AACSB: Analytical reasoning

7.10 Essay: Price Supports in Agriculture

1) What is a price support program in an agricultural market? Explain its impact on a market.

Answer: A price support program is essentially a price floor in an agricultural market. The government typically:

- isolates the domestic market from global competition by restricting imports from the rest of the world;
- introduces a price floor, which in an agricultural market is called a "price support." The government guarantees to buy at this price;
- pays a subsidy to the farms by buying the surplus crop that is produced.

A price support leads to a decrease in the quantity consumed by private consumers. The government must buy the surplus crop produced. And a deadweight loss is created.

Topic: Price support

Skill: Level 1: Definition

Section: Checkpoint 7.4

Status: MR

AACSB: Analytical reasoning

2) Who gains from a price support? Who loses? Explain how the size of the gain compares to the size of the loss.

Answer: Producers gain from a price support because the price of the good or service increases. As a result, the producer surplus increases. Consumers lose from a price support because the price the good or service increases. As a result, the consumer surplus decreases. Because a price support program creates a deadweight loss, it is the case that the decrease in consumer surplus exceeds the increase in producer surplus.

Topic: Price support

Skill: Level 3: Using models

Section: Checkpoint 7.4

Status: MR

AACSB: Analytical reasoning

3) Suppose that producers are richer than consumers. Is a price support program fair? Explain your answer.

Answer: A price support program is unfair. It is unfair under the fair rules approach to fairness because a price support prevents voluntary exchange. And, if producers are richer than consumers, it is unfair under a fair results approach because the price support further enriches the (already rich) producers while decreasing the income of the (already poor) consumers. So in this case a price support redistributes income from the poor to the rich.

Topic: Price support

Skill: Level 5: Critical thinking

Section: Checkpoint 7.4

Status: MR

AACSB: Analytical reasoning