

**** Review ****

For Test 2

Use the following to answer question 1:

Table: Consumer Surplus and Phantom Tickets

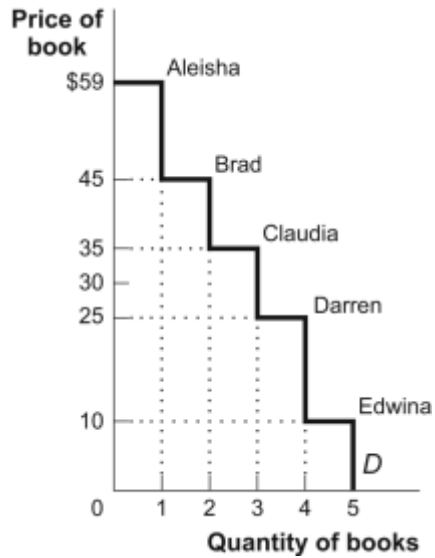
Student	Willingness to Pay
Jessica	\$150
Jacquelyn	125
Brad	105
Robert	60
Gwen	25

1. (Table: Consumer Surplus and *Phantom Tickets*) If the box-office price of a ticket to see *Phantom of the Opera* is \$50, and there is no other market for tickets, then total consumer surplus for the five students is:
 - A) \$100.
 - B) \$175.
 - C) \$230.
 - D) \$240.

2. Suppose the United States removes the current sugar quotas and the market price of sugar drops. In the candy bar market, we would expect:
 - A) the consumer surplus to increase.
 - B) the consumer surplus to decrease.
 - C) the consumer surplus to be unchanged.
 - D) the deadweight loss to increase.

Use the following to answer questions 3-4:

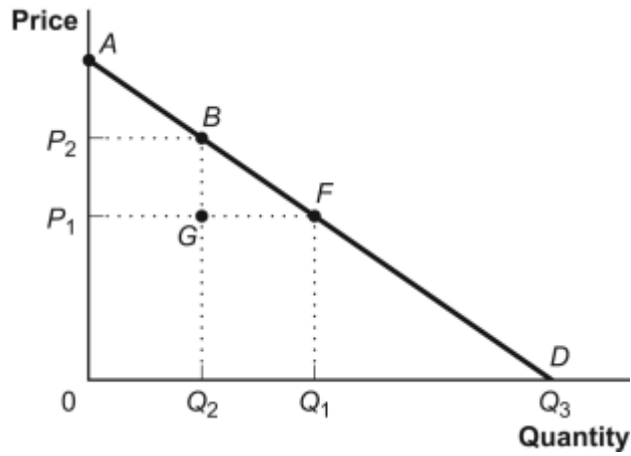
Figure: Consumer Surplus



3. (Figure: Consumer Surplus) In the figure, when the price falls from \$30 to \$25, consumer surplus _____ for a total consumer surplus of _____.
- A) increases by \$25; \$74
 - B) decreases by \$15; \$34
 - C) increases by \$15; \$64
 - D) increases by \$5; \$54
4. (Figure: Consumer Surplus) In the figure, total consumer surplus is _____ when the price is \$10.
- A) \$50
 - B) \$59
 - C) \$124
 - D) \$144

Use the following to answer question 5:

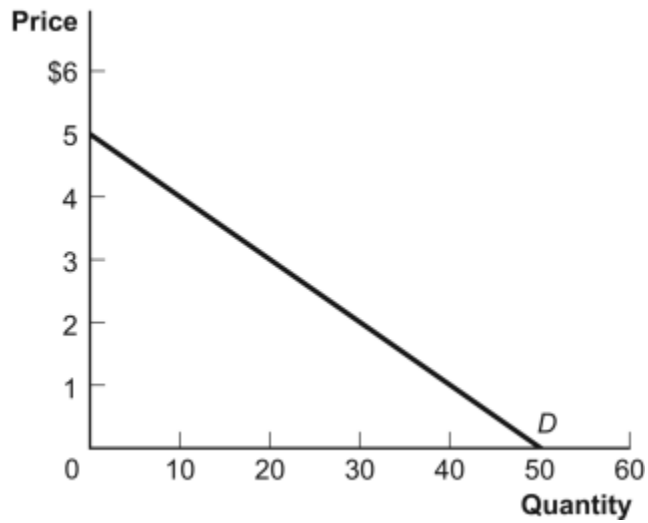
Figure: Consumer Surplus II



5. (Figure: Consumer Surplus II) If the good is free, consumer surplus equals the area:
- A) ABP_2 .
 - B) AFP_1 .
 - C) BGF .
 - D) AQ_30 .

Use the following to answer questions 6-7:

Figure: Consumer Surplus III



6. (Figure: Consumer Surplus III) If the price of the good is \$2, consumer surplus will equal:
- A) \$30.
 - B) \$45.
 - C) \$60.
 - D) \$90.
7. (Figure: Consumer Surplus III) If the price of the good decreases from \$2 to \$1, consumer surplus will increase by:
- A) \$5.
 - B) \$10.
 - C) \$25.
 - D) \$35.

Use the following to answer question 8:

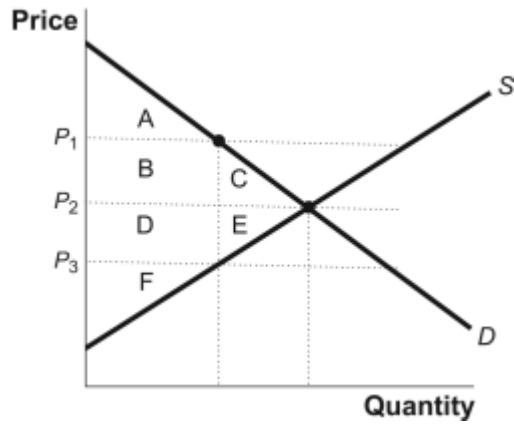
Table: Music Downloads

Number of Music Downloads	Eli's Willingness to Pay	Madison's Willingness to Pay
1st song	\$4.50	\$3
2nd song	3.50	2
3rd song	2.50	1
4th song	1.50	0.50
5th song	0.50	0.25

8. (Table: Music Downloads) Two consumers, Eli and Madison, like to download songs to their MP3 players. The table represents their willingness to pay for each downloaded song. If an individual song can be downloaded at a price of \$1, what is the total consumer surplus received by these consumers?
- A) \$19.25
 - B) \$18
 - C) \$10
 - D) \$11

Use the following to answer question 9:

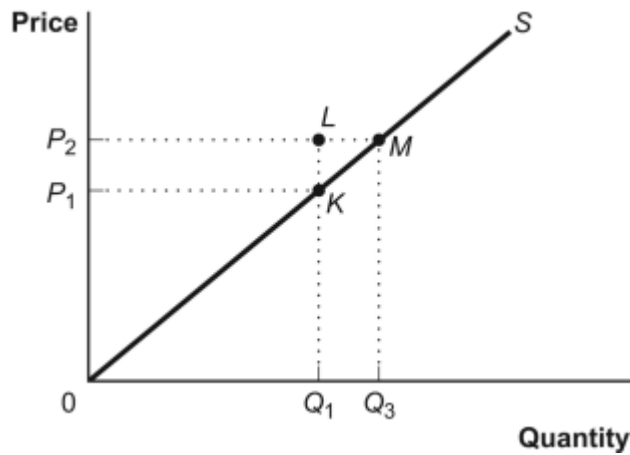
Figure: Change in Total Surplus



9. (Figure: Change in Total Surplus) Which of the following areas represent the change in total surplus when the price falls from P_1 to P_2 ?
- A) A, B, and C
 - B) B and C
 - C) B, C, D, and E
 - D) C and E

Use the following to answer question 10:

Figure: Producer Surplus II



10. (Figure: Producer Surplus II) If the price rises from P_1 to P_2 , producer surplus increases by the area:
- A) LMK .
 - B) P_1K0 .
 - C) P_2M0 .
 - D) P_2P_1KM .

Use the following to answer question 11:

Table: Producer Surplus

Student	Willingness to Sell
Tim	\$ 1
Laura	30
Whitney	50
Ralph	100
Rick	150

11. (Table: Producer Surplus and *Phantom* Tickets) Given the information in the table, if the price for *Phantom* tickets is \$55, which student has the highest individual producer surplus?
- A) Tim
 - B) Laura
 - C) Rick
 - D) Ralph
12. Suppose apartments rent for \$1,600 in Boston. If the city of Boston forces each landlord to charge \$1,200, there will be:
- A) an increase in producer surplus for each landlord.
 - B) a surplus of new apartments in Boston.
 - C) an increase in consumer surplus for Bostonians who can find apartments for \$1,200.
 - D) an increase in total surplus.
13. Producer surplus is represented by the area _____ the supply curve and _____ the price.
- A) above; above
 - B) above; below
 - C) below; above
 - D) below; below

Use the following to answer question 14:

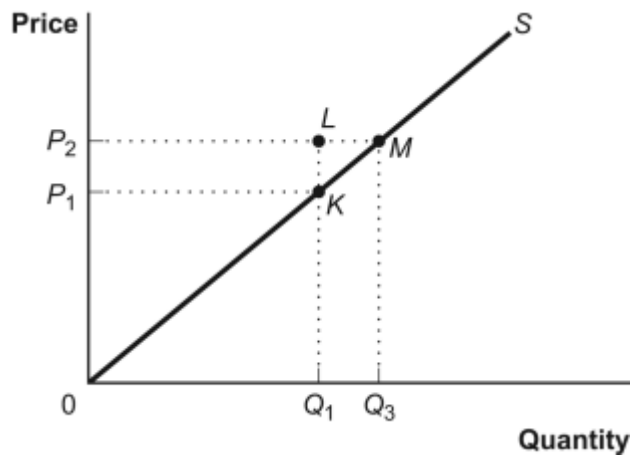
Figure: Wireless Mouse Market



14. (Figure: Wireless Mouse Market) Using the graph showing the wireless mouse market, calculate the change in producer surplus when the price increases from \$10 to \$15.
- A) \$250
 - B) \$1,000
 - C) \$750
 - D) \$3,000

Use the following to answer question 15:

Figure: Producer Surplus II



15. (Figure: Producer Surplus II) At a price of P_1 , producer surplus equals the area:
- A) LMK .
 - B) P_1K0 .
 - C) P_2M0 .
 - D) P_2P_1KM .
16. If the market for grapefruit is in equilibrium without any government intervention:
- A) total surplus is minimized.
 - B) there is some deadweight loss.
 - C) a few mutually beneficial trades are missed.
 - D) consumer and producer surplus are maximized.

Use the following to answer question 17:

Figure: Demand Curve for Oil

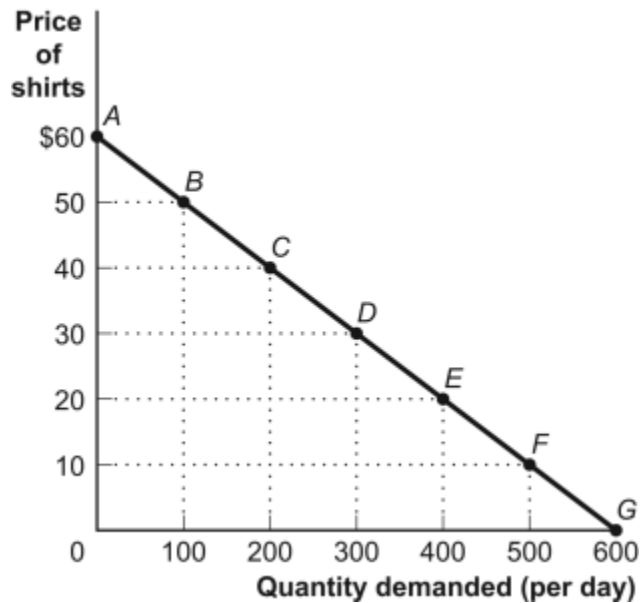


17. (Figure: Demand Curve for Oil) What is the approximate price elasticity of demand between \$20 and \$21, using the midpoint method?
- A) 0.21
 - B) 0.49
 - C) 2.1
 - D) 4.9

18. If the price of a good is increased by 20% and the quantity demanded changes by 15%, then the price elasticity of demand is equal to:
- A) 0.75.
 - B) approximately 0.33.
 - C) approximately 1.33.
 - D) 1.
19. If the price of chocolate-covered peanuts decreases from \$1.05 to \$0.95 and the quantity demanded increases from 180 bags to 220 bags, this indicates that, if other things are unchanged, the absolute value of the price elasticity of demand using the midpoint method is:
- A) 0.5.
 - B) 1.
 - C) 2.
 - D) greater than 2.

Use the following to answer question 20:

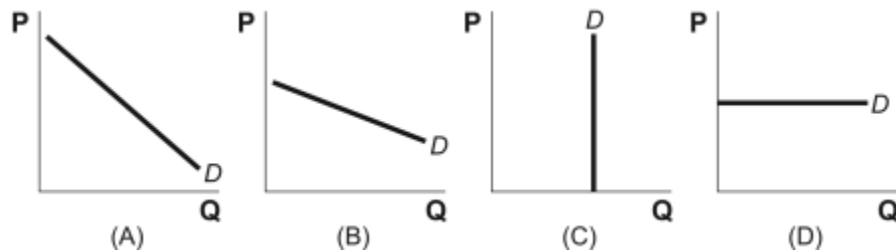
Figure: Demand for Shirts



20. (Figure: Demand for Shirts) The price elasticity of demand for the segment *BC*, using the midpoint method, is:
- A) greater than 3.33.
 - B) 3.33.
 - C) 3.
 - D) 0.33.
21. The price elasticity of demand measures the:
- A) responsiveness of quantity demanded to a change in price.
 - B) responsiveness of price to a change in quantity demanded.
 - C) extent to which prices are flexible and respond to market forces.
 - D) responsiveness of demand when price is held constant and demand increases or decreases.
22. If a 20% price increase generates a 20% decrease in quantity demanded, then this is a(n) _____ response.
- A) inelastic
 - B) elastic
 - C) unit-elastic
 - D) perfectly elastic
23. Yovanka has diabetes and she will pay any amount of money to buy the insulin she needs to stay alive. Yovanka's price elasticity of demand for insulin is:
- A) inelastic.
 - B) elastic.
 - C) perfectly inelastic.
 - D) perfectly elastic.

Use the following to answer question 24:

Figure: Demand Curves



24. (Figure: Demand Curves) Which graph shows a perfectly elastic demand curve?
 A) A
 B) B
 C) C
 D) D
25. If total revenue goes up when price falls, the price elasticity of demand is said to be:
 A) price-inelastic.
 B) price unit-elastic.
 C) price-elastic.
 D) normal.
26. If total revenue goes down when price falls, the price elasticity of demand is said to be:
 A) price-inelastic.
 B) price unit-elastic.
 C) price-elastic.
 D) normal.
27. If the price elasticity of demand equals 0, then this means the demand curve is:
 A) horizontal.
 B) vertical.
 C) upward-sloping.
 D) unit-elastic.

Use the following to answer questions 28-29:

Table: Johnson's Income and Expenditures

Monthly Income	Quantity Purchased per Month			
	Steaks	Magazines	Movies	Pizzas
\$2,000	2	4	6	8
\$3,000	2	6	6	6

28. (Table: Johnson's Income and Expenditures) For Johnson, magazines are a(n):
 A) negative good.
 B) inferior good.
 C) normal good.
 D) neutral good.

29. (Table: Johnson's Income and Expenditures) Johnson's income elasticity of demand for movies is:
- A) infinite.
 - B) 1.
 - C) 0.
 - D) -1.
30. The price elasticity of supply is computed as the percentage change in:
- A) quantity supplied divided by the percentage change in quantity demanded.
 - B) quantity supplied divided by the percentage change in price.
 - C) price divided by the percentage change in quantity supplied.
 - D) quantity supplied divided by the percentage change in consumer income.
31. An excise tax creates inefficiency in that the number of transactions in a market is reduced. Because the tax discourages mutually beneficial transactions, there is _____ from a tax.
- A) tax shift
 - B) deadweight loss
 - C) consumer surplus
 - D) a producer surplus
32. If the government imposes a \$5 excise tax on the sale of leather shoes collected from the producer and the price of leather shoes increases by \$2:
- A) the government will receive less tax revenue than anticipated.
 - B) consumers are paying more of the tax than the producers.
 - C) producers are paying more of the tax than are the consumers.
 - D) the quantity of shoes sold will increase.
33. In perfect competition, each firm:
- A) is a price-maker.
 - B) produces about half of the total industry output.
 - C) produces a differentiated product.
 - D) produces a standardized product.
34. Individuals in a market who must take the market price as given are:
- A) quantity-minimizers.
 - B) quantity-takers.
 - C) price-takers.
 - D) price-searchers.

35. For a perfectly competitive firm, marginal revenue:
- A) is less than price.
 - B) is greater than price.
 - C) decreases as the firm increases output.
 - D) is equal to price.