The 2011
AP Economics Exams

Top 10 Most Common Errors
AP Economics
Micro Only
2011

Overview of Trouble Spots

11. Finding the Socially Optimal Quantity
10. Deadweight Loss from a Positive Externality
9. Allocative Efficiency
7. Price Elasticity of Demand
6. MFC and MRP in a Perfectly Competitive Labor Market
5. Effect of Price Ceiling on DWL
4. MR with a Price Ceiling
3. MFC with a Minimum Wage
2. Effect of Lump Sum Tax on DWL
1. Deadweight Loss from a Negative Externality

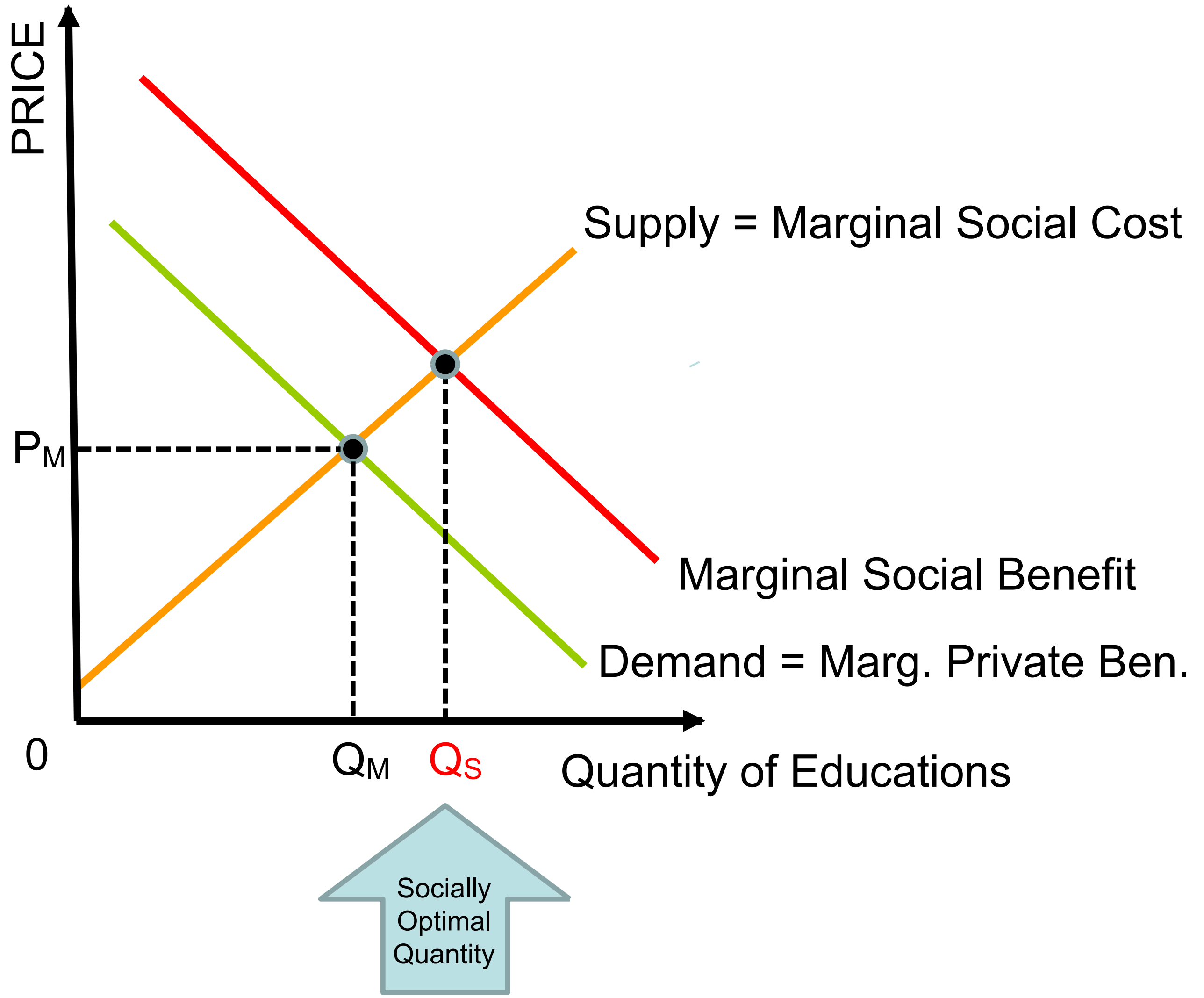
Special Mention: Axis Labels!

11. Overseas Micro 2 (a)(ii)

Question: Suppose research shows that the more college education individuals receive, the more responsible citizens they become and the less likely they are to commit crimes.

(a) Draw a correctly labeled graph for the education market and show …

(ii) The socially optimal quantity of education, labeled Q_S.



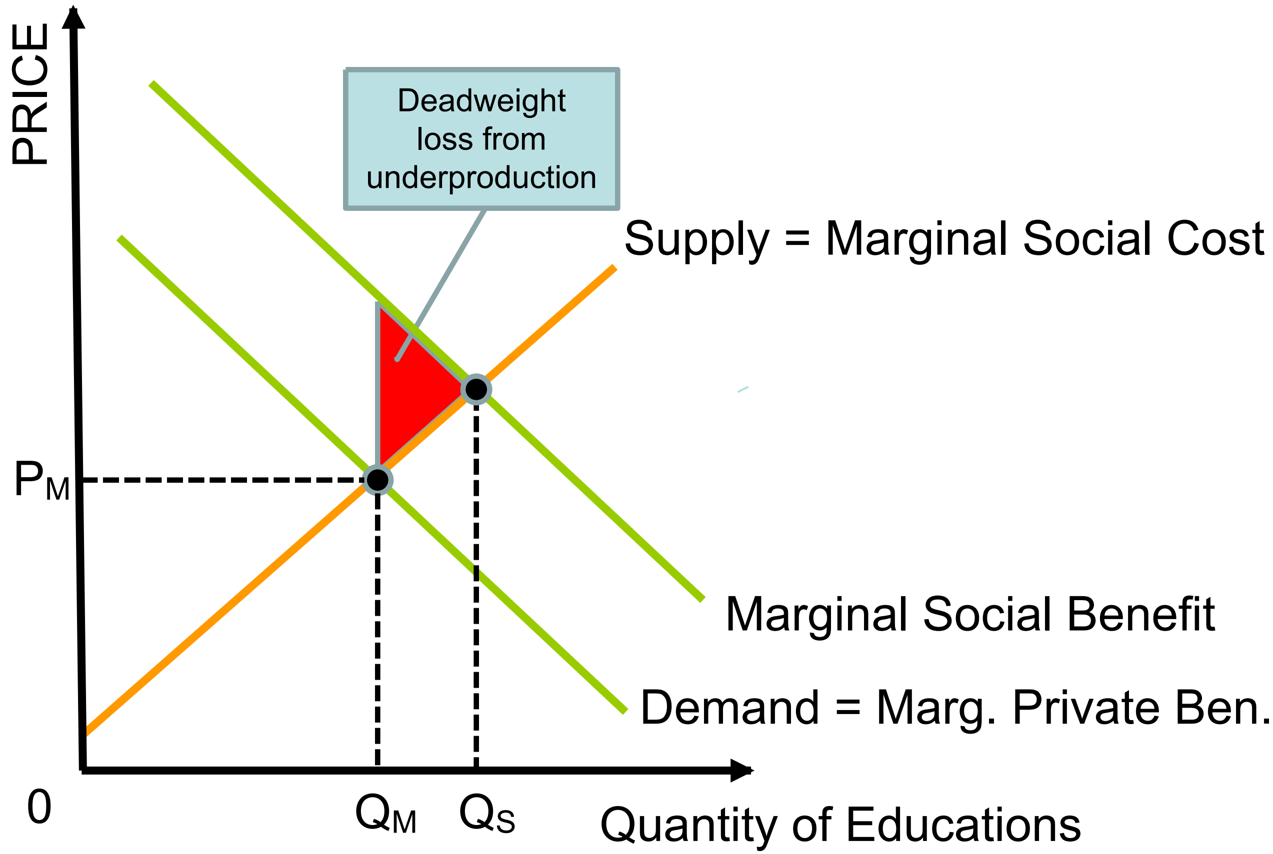
36% answered correctly

10. Overseas Micro 2 (a)(iii)

Question: Suppose research shows that the more college education individuals receive, the more responsible citizens they become and the less likely they are to commit crimes.

(a) Draw a correctly labeled graph for the education market and show …

(iii) Deadweight loss at the market equilibrium, completely shaded.

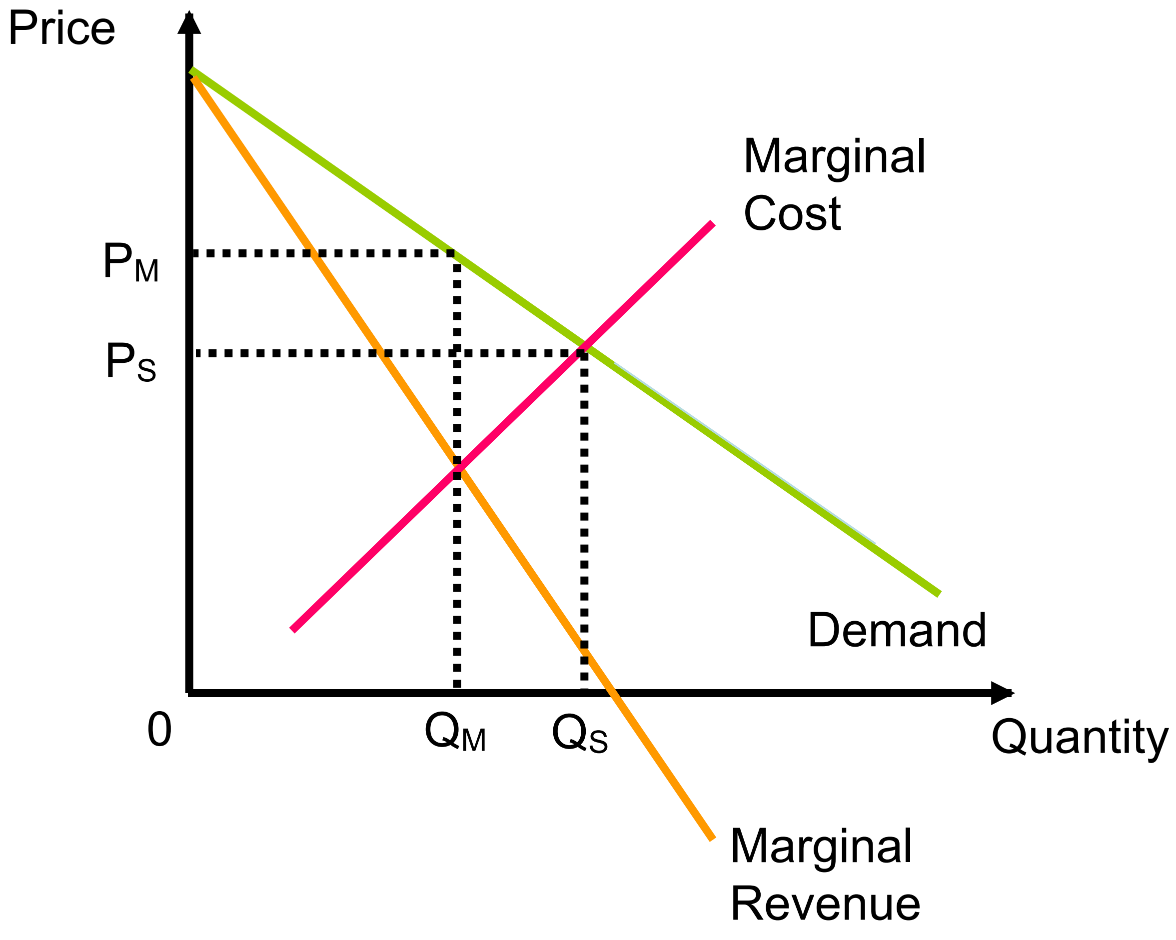


33% answered correctly

9. Micro 1 (c)

Question: Assume that the monopolist is maximizing profit. Is allocative efficiency achieved? Explain.

Micro 1 (c)



Price
P_M
P_S
Marginal Cost
Demand
0
Q_M
Q_S
Quantity
Marginal Revenue

9. Micro 1 (c)

Answer: No, because P ≠ MC / D ≠ MC / MSB ≠ MSC.

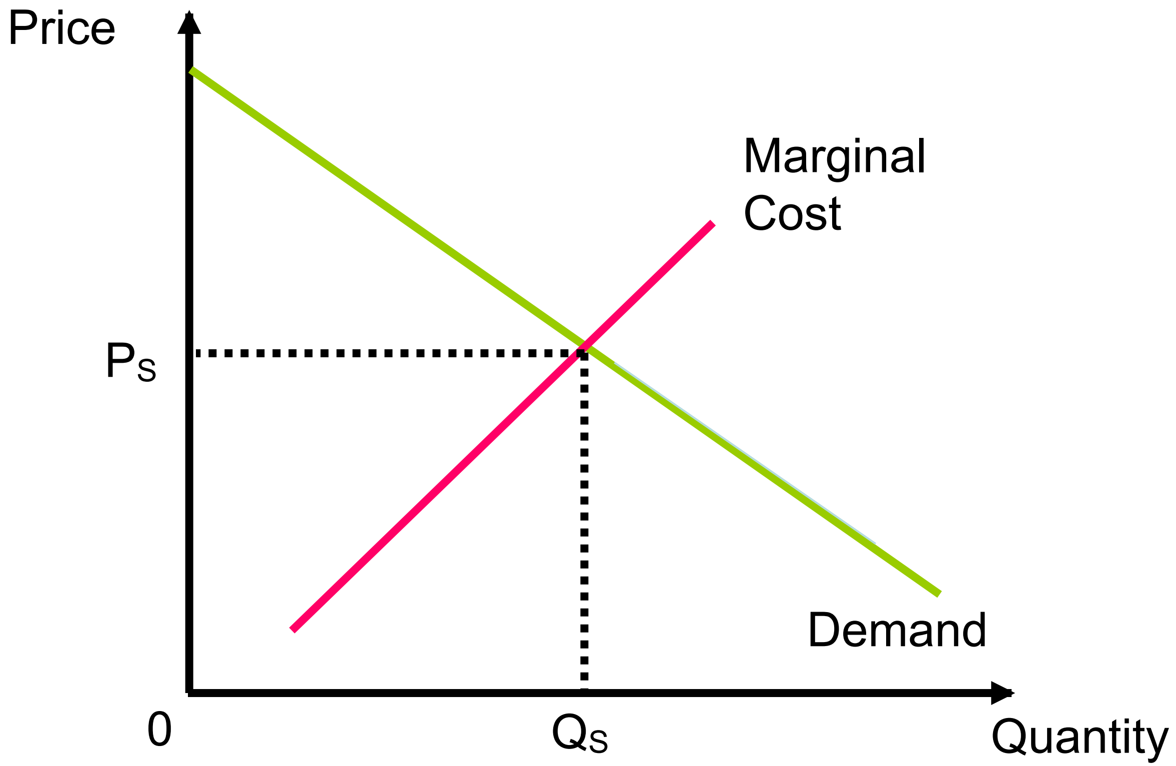
(33% answered correctly)

8. Micro 1 (g)

Question: Assume instead that the monopolist practices perfect price discrimination (also called first-degree price discrimination).

(ii) What will be the value of the consumer surplus?

Micro 1 (c)



8. Micro 1 (g)

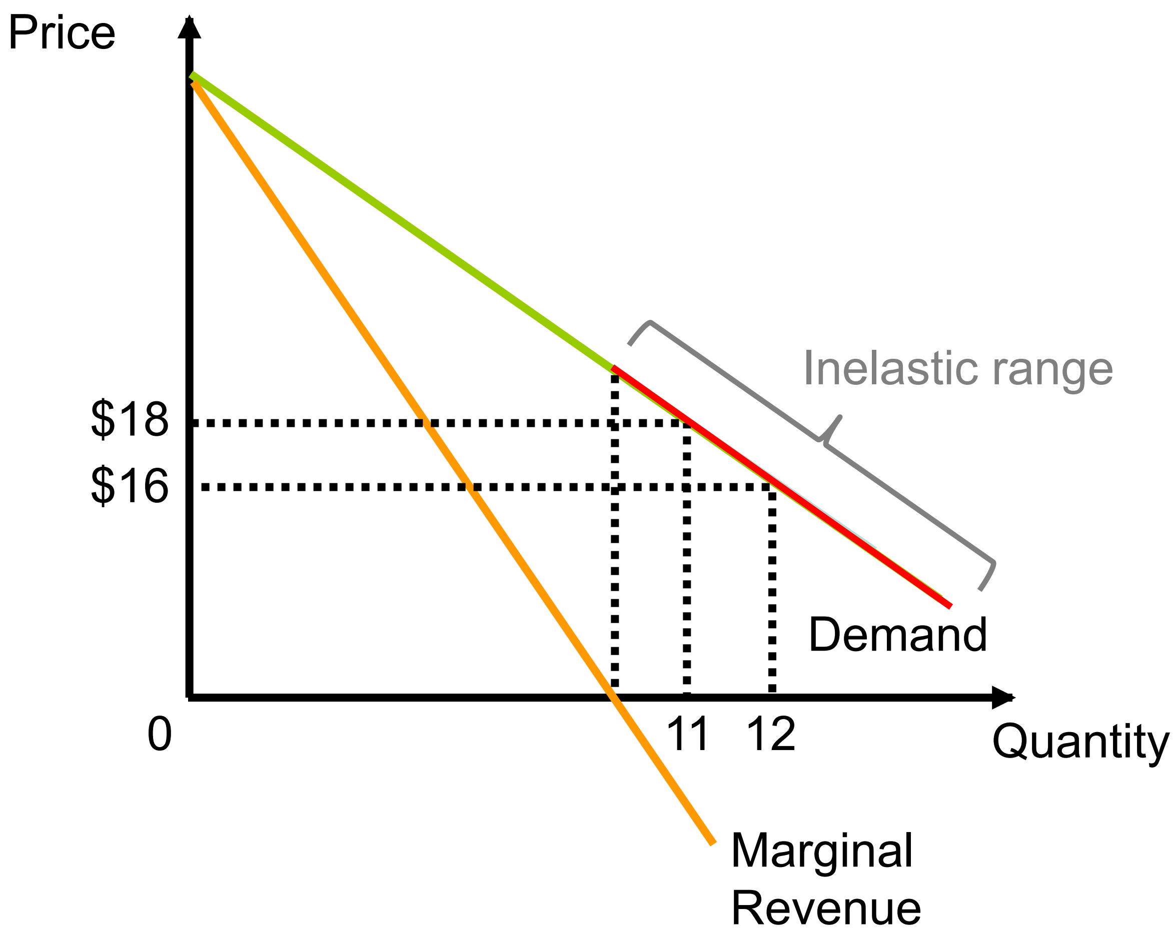
Answer: Zero (because each customer is charged the most he or she is willing to pay, thus eliminating any consumer surplus).

(28% answered correctly)

7. Micro 1 (d)

Question: Between the prices of $16 and $18, is the monopolist in the elastic, inelastic, or unit elastic portion of its demand curve. Explain.

Micro 1 (d) Answer



7. Micro 1 (d)

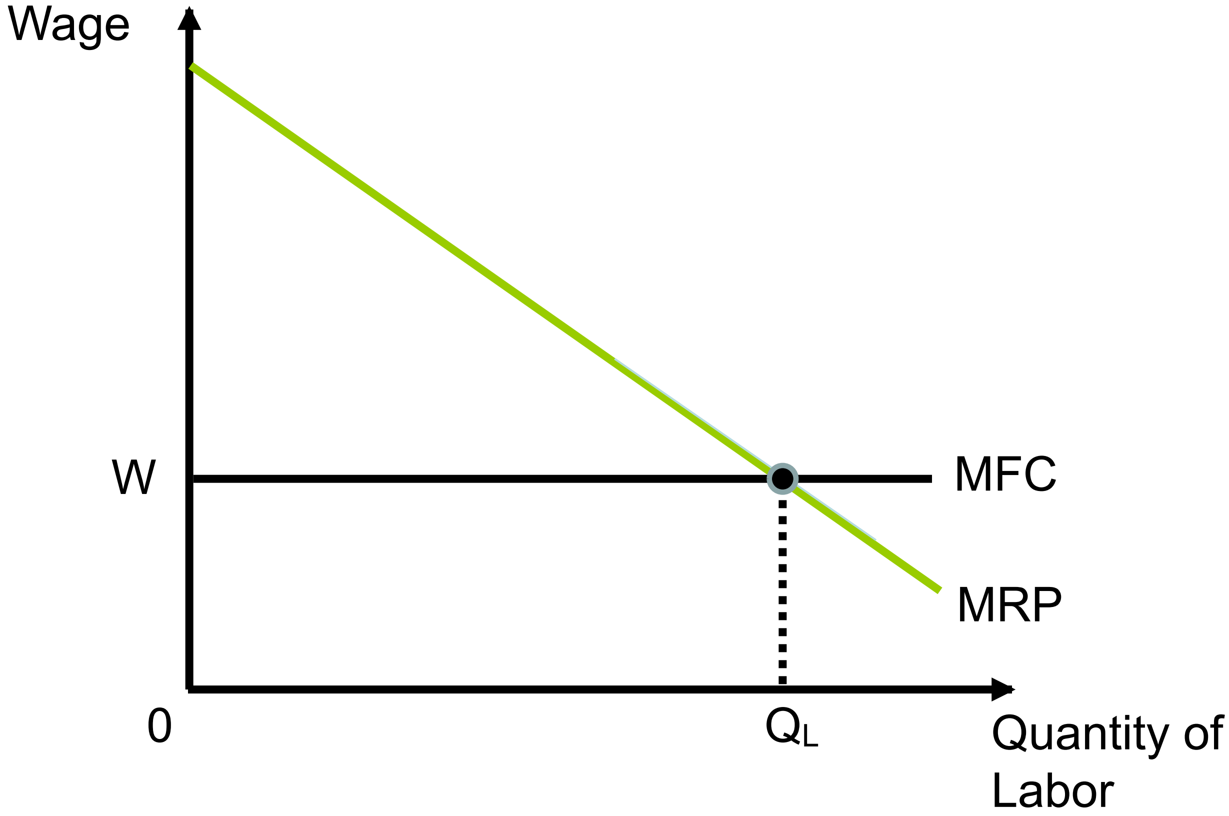
Answer: Demand is inelastic because TR increases as price increases / MR is negative / the price elasticity is .74 < 1.

27% answered correctly

6. Micro 2 part (c)

Question: Assume that avocado producers hire workers from a perfectly competitive labor market. Draw a graph of labor supply and demand for the typical firm and label the supply curve MFC and the demand curve MRP.

Micro 2 (c) Answer

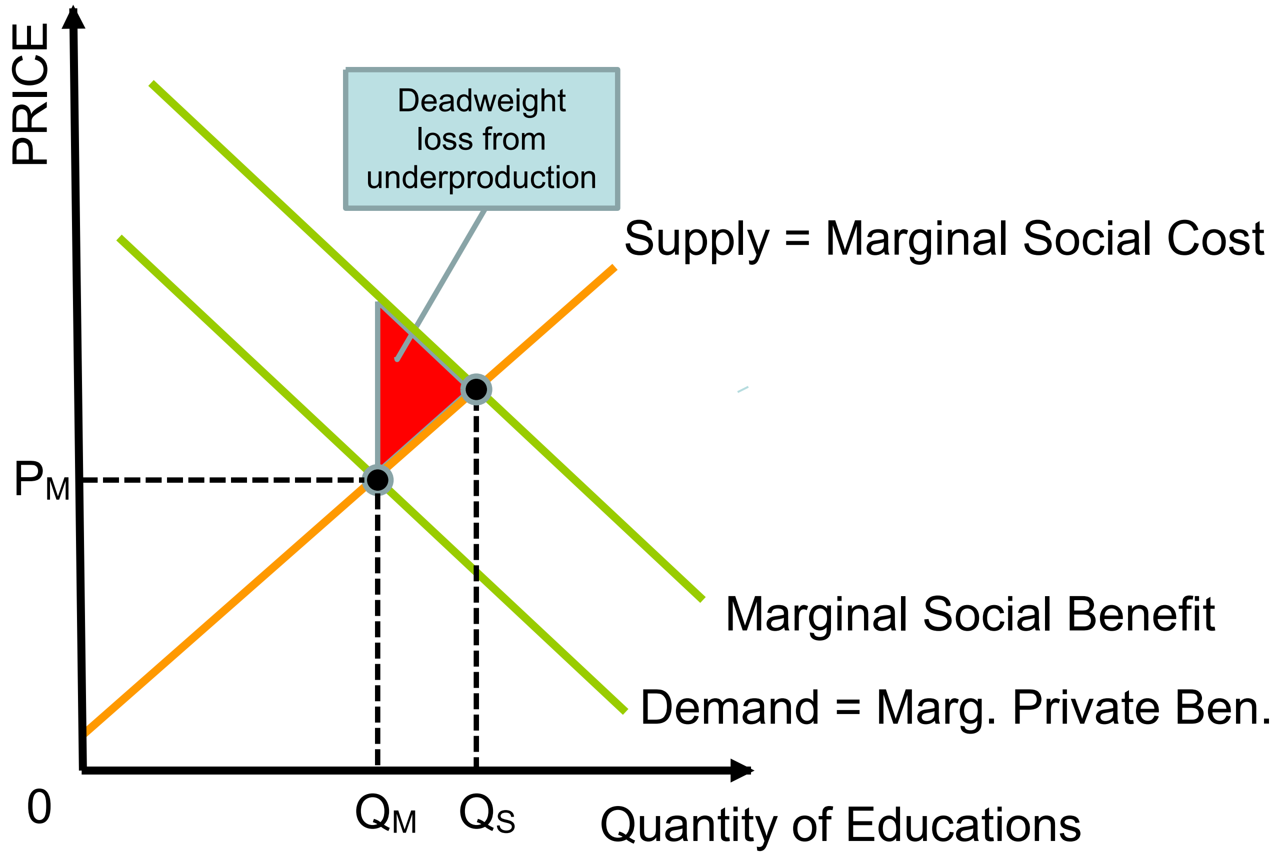


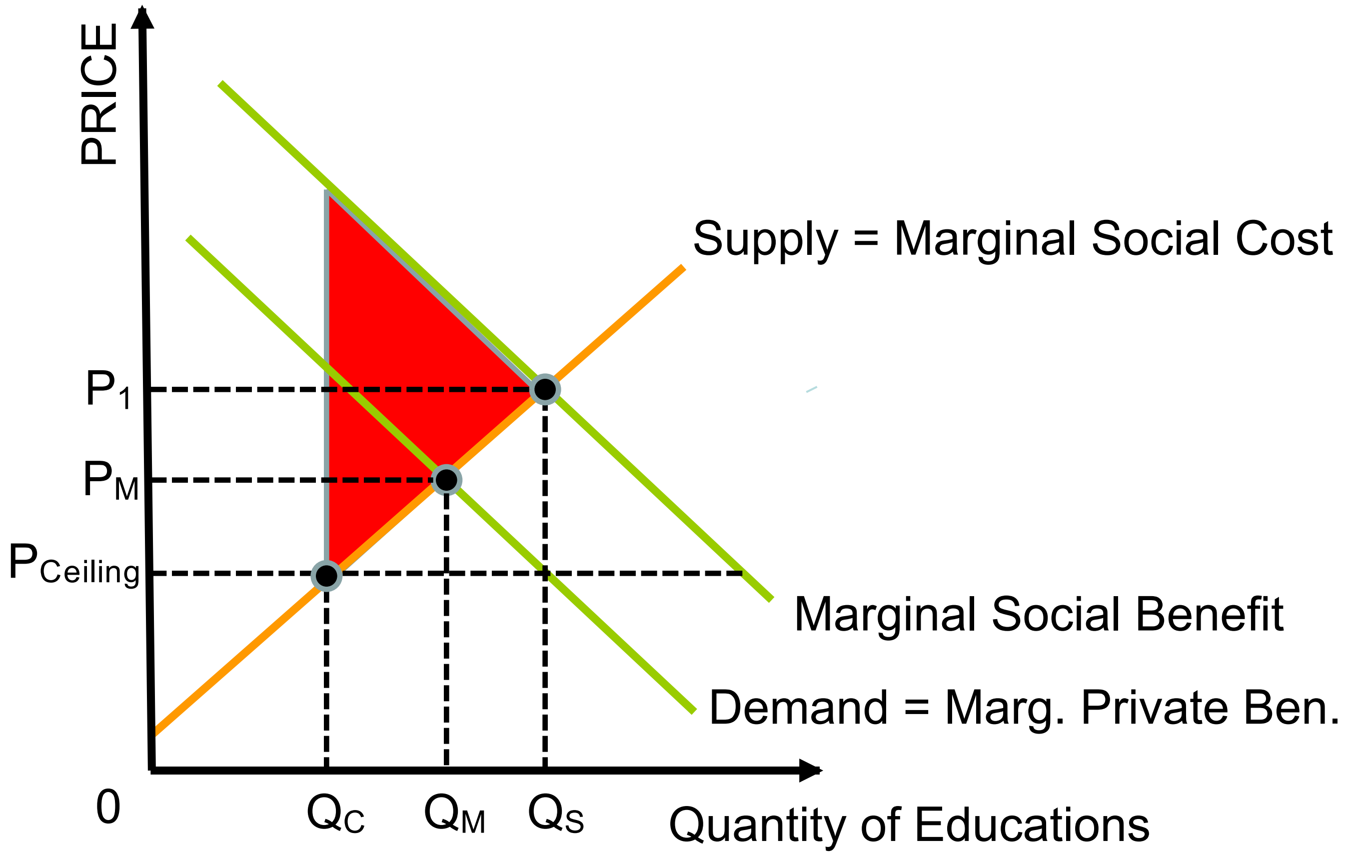
25.3% answered correctly

5. Overseas Micro 2 part (b)

Question: Assume that the government imposes an effective (binding) price ceiling on the price of college education.

(ii) Does this price ceiling increase, decrease, or have no impact on the deadweight loss in this industry? Explain.


PRICE
Deadweight loss from underproduction
Supply = Marginal Social Cost
P_M
Marginal Social Benefit
Demand = Marg. Private Ben.
0
Q_M
Q_S
Quantity of Educations



PRICE
Supply = Marginal Social Cost
Marginal Social Benefit
Demand = Marg. Private Ben.
P_1
P_M
$P_{Ceiling}$
0
Q_C
Q_M
Q_S
Quantity of Educations

5. Overseas Micro 2 part (b)

Answer: Deadweight loss will increase because the quantity supplied will decrease.

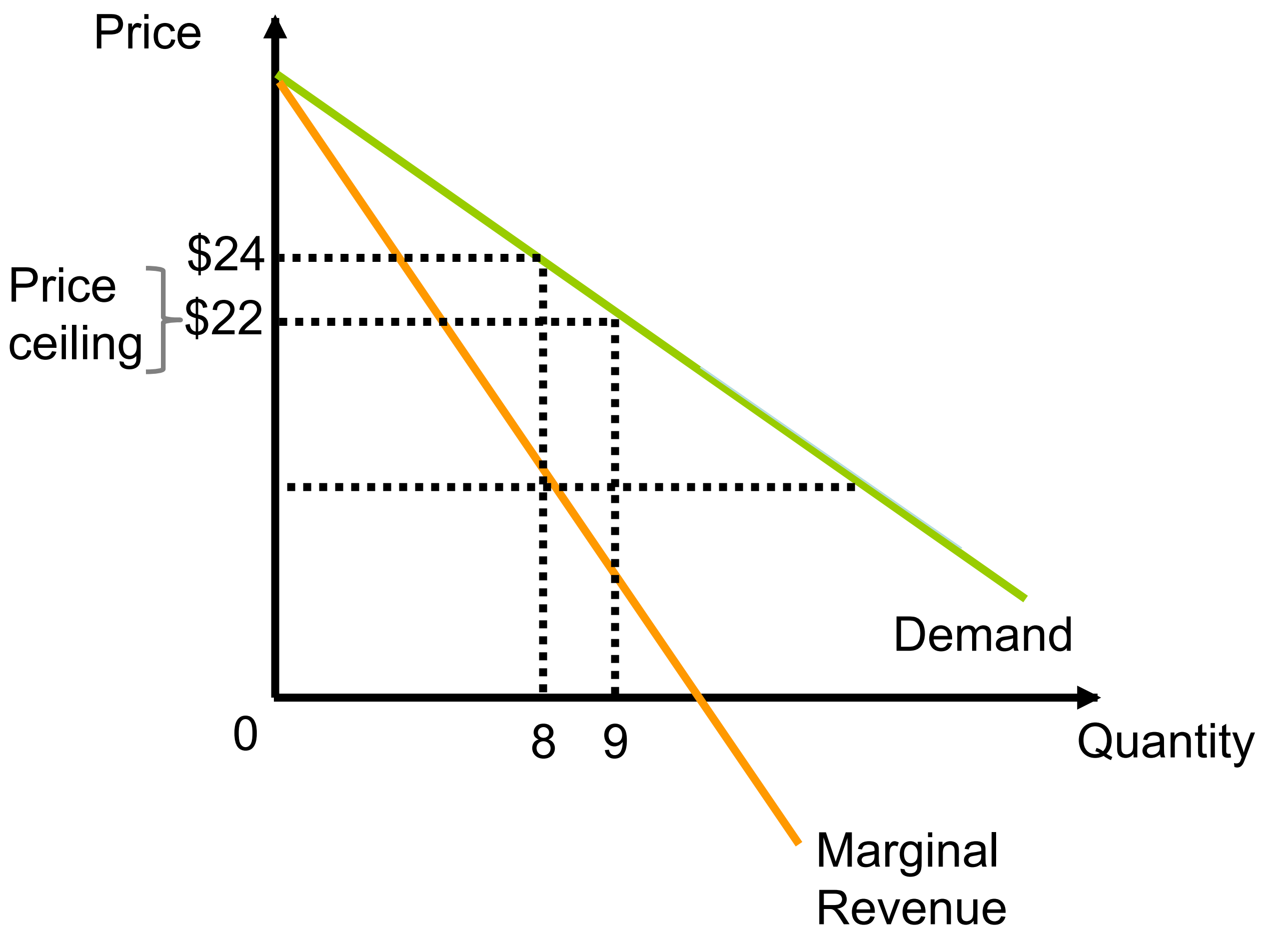
(13 percent answered correctly)

4. Micro 1 (f)

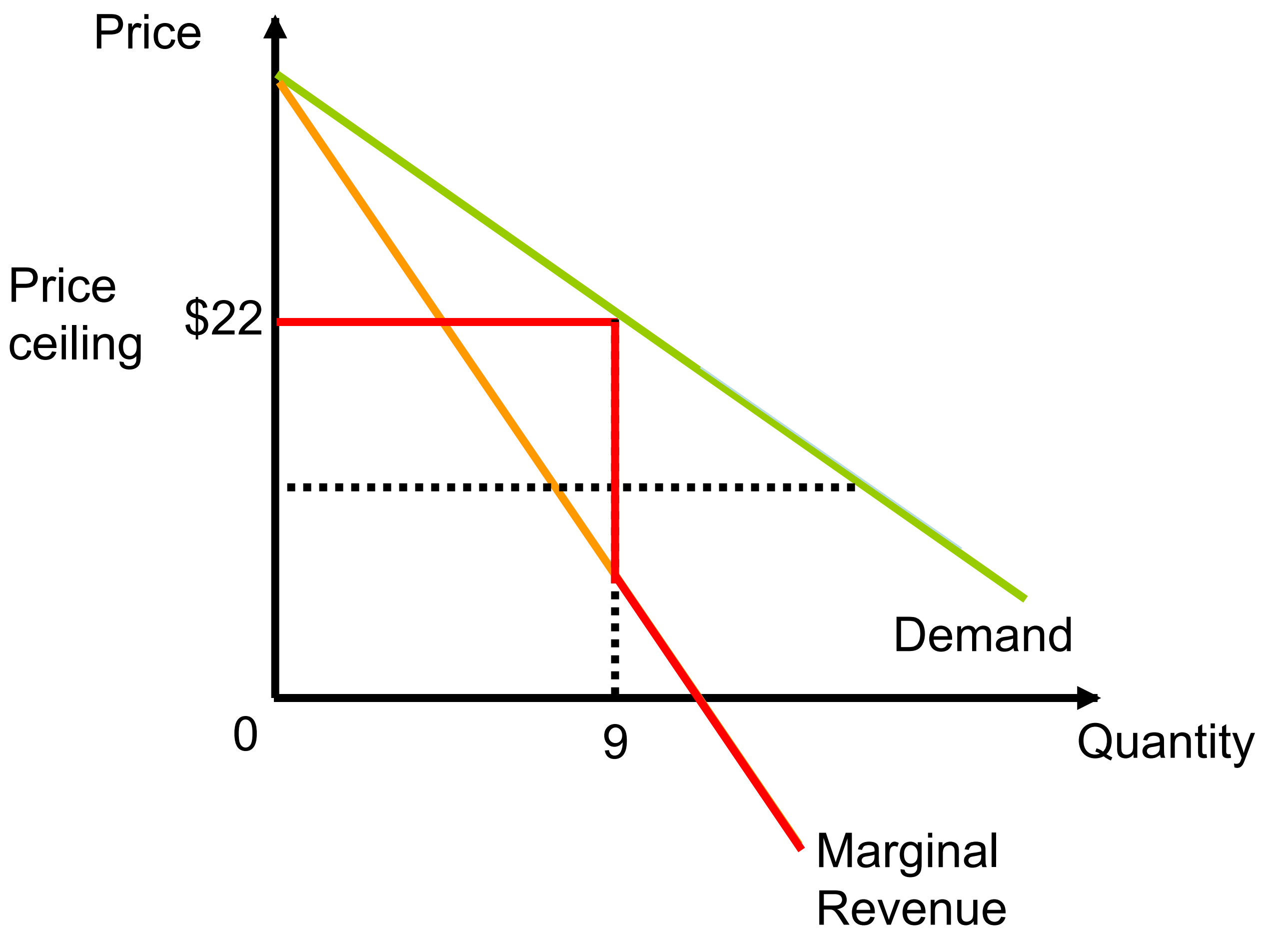
Question:

Assume that regulators impose a price ceiling of $22. What is the marginal revenue of the eighth unit?

Micro 1 (f)


Price
$24
Price ceiling
$22
Demand
0
8
9
Quantity
Marginal Revenue

Micro 1 (f)


Price
Price
ceiling
$22
Demand
0
9
Quantity
Marginal
Revenue

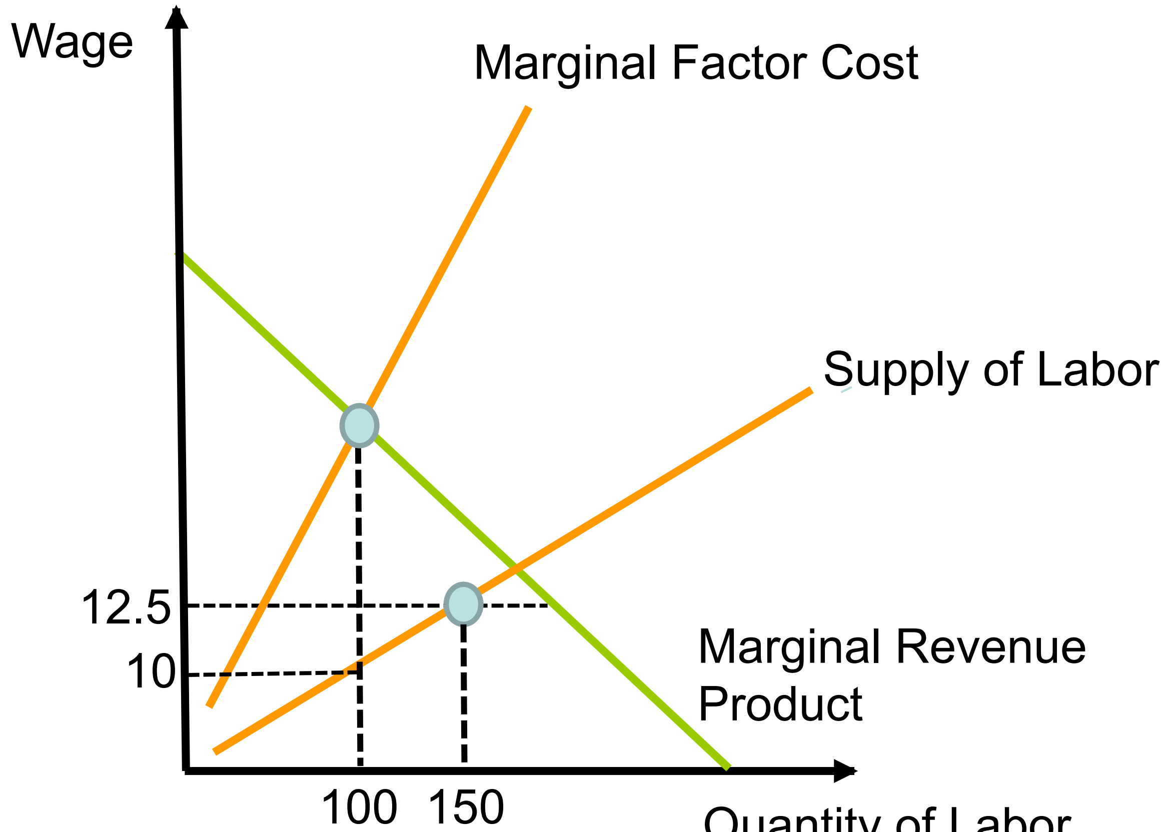
4. Micro 4 (f)

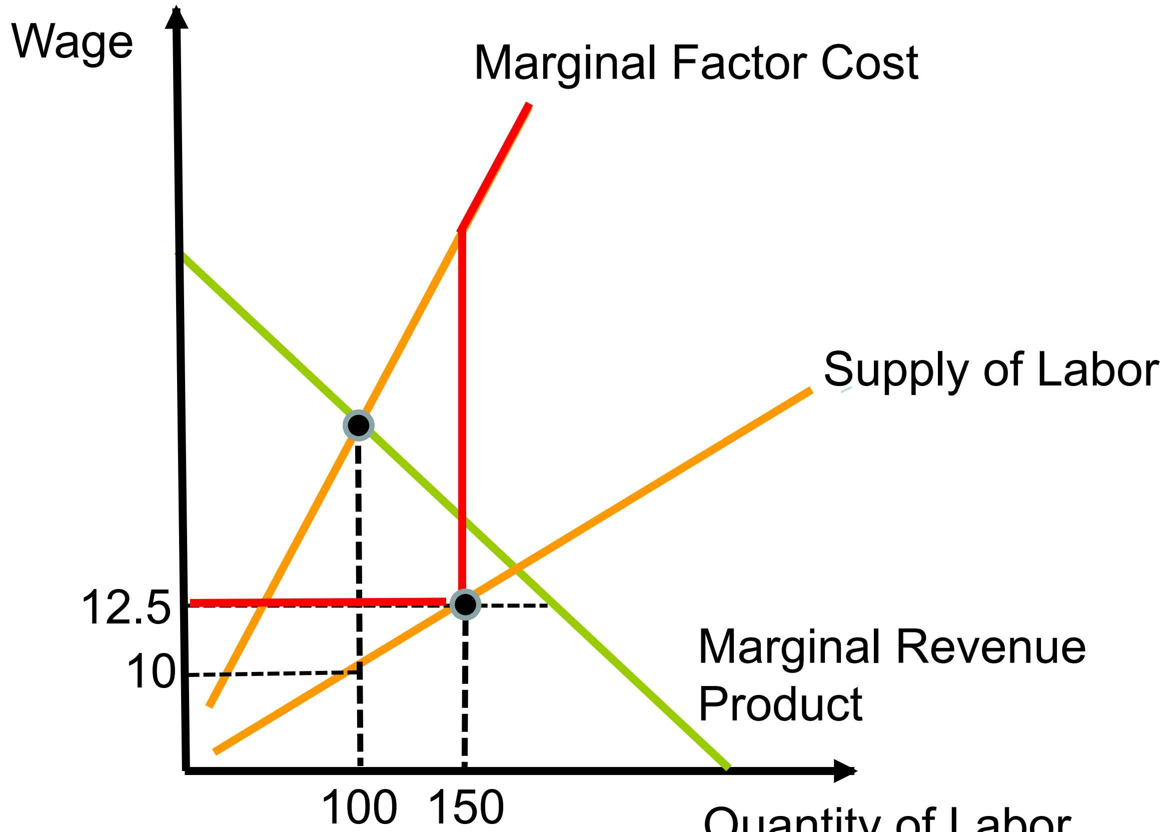
Answer: $22.

(12% answered correctly)

3. Overseas Micro 3 (c)(ii)

Question: Identify the quantity of labor hired [by a monopsony when] the government imposes a minimum wage of $12.5. Explain.


Wage
Marginal Factor Cost
Supply of Labor
12.5
10
Marginal Revenue Product
100
150
Quantity of Labor


Wage
Marginal Factor Cost
Supply of Labor
12.5
10
Marginal Revenue Product
100
150
Quantity of Labor

3. Overseas Micro 3 (c)(ii)

Answer: 150 units.

(37% answered correctly)

Explanation: Because the marginal factor cost curve becomes horizontal at the minimum wage up to a quantity of 150.

(8% answered correctly)

2. Micro 3 (b)

Question: Assume a lump-sum tax is imposed on the [perfectly competitive] producers of good X [known to create a negative externality]. What happens to the deadweight loss? Explain.

2. Micro 3 (b)

Answer: There is no change because a lump sum tax does not affect marginal cost, so the quantity supplied remains the same.

A discussion of firms exiting due to the lump sum tax and the resulting change in DWL is also acceptable.

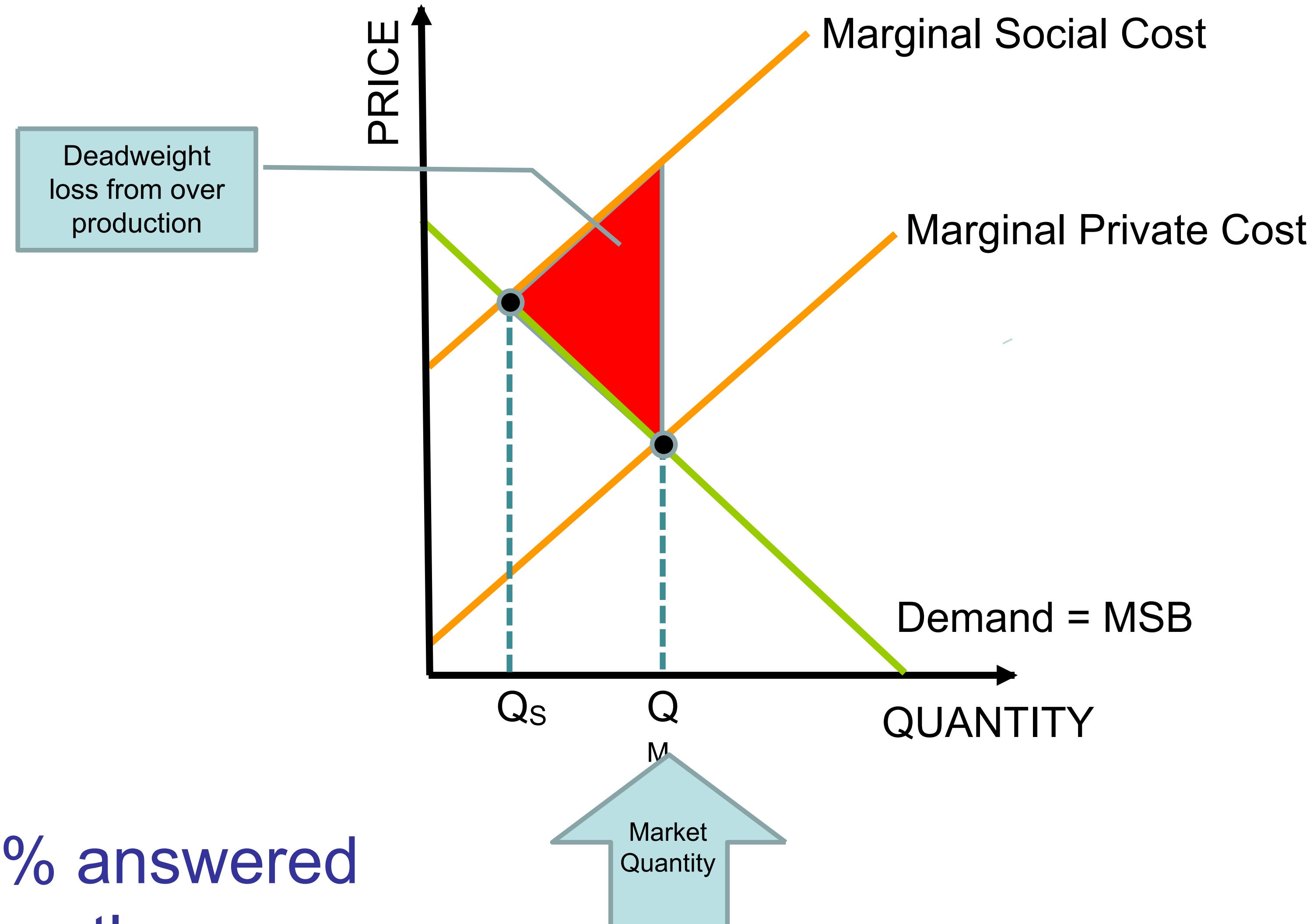
(6% answered correctly)

1. Micro 3 (a)

Question: Draw a correctly labeled graph of the market for good X [known to create a negative externality] and show …

(iv) The area of deadweight loss, shaded completely

Answer:



4.1% answered correctly

Deadweight Loss with Negative Externalities

"Quantity levels less than or greater than the efficient quantity create efficiency losses (or deadweight losses)."

--McConnell, Brue, Flynn, 18e, p. 129

Diagrams similar to the previous slide:

McConnell, Brue, Flynn, 19e, pp. 99 and 105
Parkin 5e, p. 117

This issue is discussed further in the Deadweight Loss Presentation.

Labels (many of which are wrong)– use what's in the text

- **Pesos per Dollar**
- Peso P
- P$
- Price of $
- V$
- Value of $
- Peso
- Peso per $
- P = Peso
- $ in terms of peso
- Peso value of $
- Peso price for $
- Exchange rate
- Price in pesos
- Q pesos
- $/Peso
- PL
- FX/$
- Value of Peso
- E.V. of Peso
- Peso in dollars
- $ vs. Pesos
- Price of $ / Peso
- Peso in relation to $
- E

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