

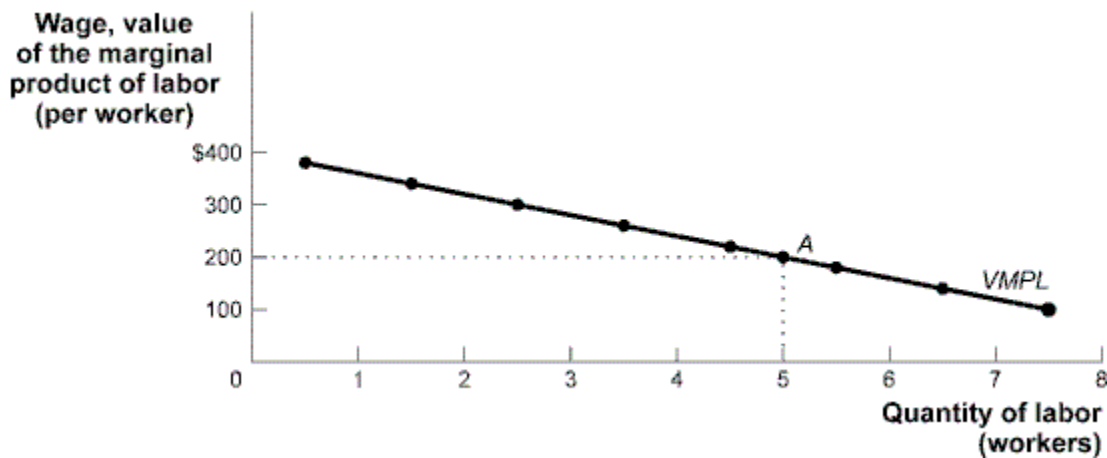
Micro III-IV Review Questions

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. Factor demand is said to be derived demand because it:
- requires the use of other factors.
 - depends on product demand.
 - has a downward-sloping demand curve.
 - has a constant marginal factor cost.
 - depends on the cost of hiring the factor.

Figure 69-1: The Value of the Marginal Product Curve



- _____ 2. (Figure 69-1: The Value of the Marginal Product Curve) In the figure, the *VMPL* curve will shift to the right if: (Note: *VMPL* is sometimes used in place of *MRP* of Labor under perfectly competitive conditions.)
- the wage rate increases.
 - a technological advance makes labor more productive.
 - the price of the good decreases.
 - the wage rate decreases.
 - the price of a complementary input increases.
- _____ 3. A decrease in the demand for pastry chefs may come about because of an:
- increased concern for fitness.
 - increase in the market wage rate for pastry chefs.
 - increase in the productivity of pastry chefs.
 - increase in the supply of other factors that pastry chefs use.
 - decrease in the price of other factors that are employed with pastry chefs.

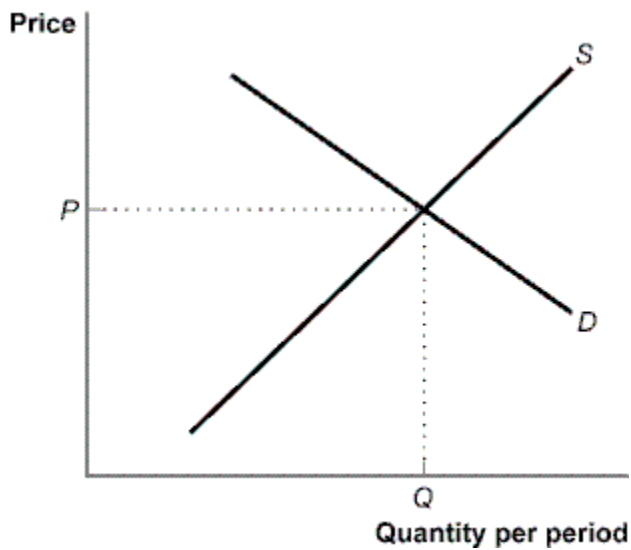
Number of Workers	Output of Corn (units of corn)
0	0
1	30
2	58
3	79
4	94
5	104
6	108
7	110

Table 69-2: Workers and Corn Output

- _____ 4. (Table 69-2: Workers and Corn Output) Laura is a price-taking farmer who produces corn. Assume the wage rate for workers is \$125 and the price per unit of corn is \$10. The table shows Laura's production function. To maximize profits Laura should employ _____ workers.
- two
 - three
 - four
 - six
 - five
- _____ 5. Max employs both labor and capital to produce his trinkets. Currently the last unit of labor employed has a marginal product of 15 units. The last unit of capital employed has a marginal product of 40 units. The price of labor is \$3 per unit and the price of capital is \$10 per unit. If Max is going to find the least-cost combination of labor and capital, he needs to _____ his employment of labor and _____ his employment of capital.
- maintain; maintain
 - decrease; increase
 - decrease; decrease
 - increase; increase
 - increase; decrease
- _____ 6. If a union is able to bargain for a wage that is higher than the equilibrium, this means that:
- all workers will earn a wage equal to their value of marginal product.
 - some excess supply of labor or unemployment will result at this wage rate.
 - compensating differentials will be erased in this market.
 - diminishing returns will not exist in this market.
 - the demand for nonunion labor will decrease.
- _____ 7. A market economy, without any government regulation, will produce:
- too little pollution.
 - too much pollution.
 - the socially optimal quantity of pollution.
 - the amount of pollution that maximizes total surplus.
 - zero pollution.

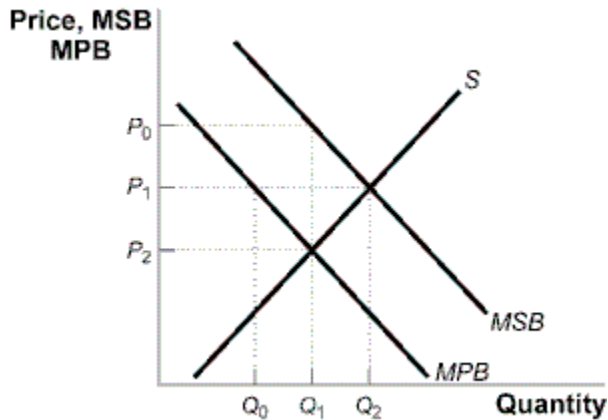
- _____ 8. An externality is said to exist when:
- a. individuals impose costs or benefits on others but have no incentive to take these costs and benefits into account.
 - b. individuals impose costs or benefits on others, and the market provides incentives to take these costs and benefits into account.
 - c. individual actions are affected by external forces; for example, the loss of U.S. jobs due to competition from abroad is an externality.
 - d. individual actions are affected by government policies (such as taxes) that are externally imposed on the market.
 - e. the quantity of a good produced in the market is the socially optimal quantity.
- _____ 9. Well-functioning markets allow:
- a. mutually beneficial trades to take place.
 - b. consumers to gain at the expense of producers.
 - c. producers to reap greater benefits since they have greater power in the market.
 - d. property rights to be unnecessary components of effective distribution.
 - e. producers to gain at the expense of consumers.
- _____ 10. Suppose the production of DVDs generates sulfur dioxide, an air pollutant. Then the equilibrium market quantity of DVDs produced and consumed:
- a. is less than the socially optimal quantity, due to the negative externality.
 - b. is less than the socially optimal quantity, due to the positive externality.
 - c. equals the socially optimal quantity and there is no externality.
 - d. is more than the socially optimal quantity, due to the positive externality.
 - e. is more than the socially optimal quantity, due to the negative externality.
- _____ 11. Automobile emissions generate pollution and cause higher costs and discomfort to residents of a city. In this case:
- a. too few of society's resources are being used to operate automobiles.
 - b. the externality can be internalized into the market by imposing a specific tax on drivers.
 - c. there is an external benefit to society from operating automobiles.
 - d. the externality can be internalized into the market by granting a specific subsidy to drivers.
 - e. the market price of automobiles is too high.
- _____ 12. When an activity like education generates a positive externality, the:
- a. market demand curve is below the marginal social benefit curve.
 - b. market demand curve is above the marginal social benefit curve.
 - c. marginal cost of production is below the market demand curve.
 - d. market will produce more than the efficient level of output.
 - e. market will produce the efficient level of output.

Figure 75-5: Model of a Competitive Market



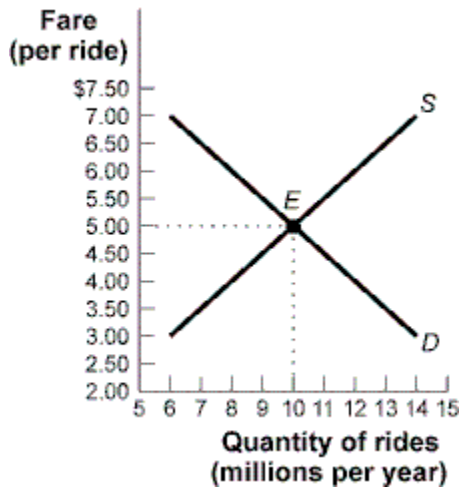
- _____ 13. (Figure 75-5: Model of a Competitive Market) If there are no external benefits or costs, the output at Q will be:
- a. larger than is socially desirable.
 - b. smaller than is socially desirable.
 - c. efficient.
 - d. inefficient.
 - e. generating deadweight loss in this market.
- _____ 14. Oscar owns a meat processing plant that emits unpleasant odors that waft across the city. Because his production of processed meat provides a negative externality to the community, it must be the case that at the market equilibrium quantity, the marginal social:
- a. cost of processed meat exceeds the market price.
 - b. benefit of processed meat exceeds the market price.
 - c. cost of processed meat is lower than the market price.
 - d. benefit of processed meat is lower than the market price.
 - e. cost of processed meat equals the market price.

Figure 75-8: Marginal Private Benefits and Marginal Social Benefits



- _____ 15. (Figure 75-8: Marginal Private Benefits and Marginal Social Benefits) Without government intervention, this market will produce _____ units at a price of _____. (Note: $S = MSC$, assuming no negative externalities, and $MPB = D$)
- Q_0 ; P_0
 - Q_1 ; P_0
 - Q_1 ; P_2
 - Q_2 ; P_1
 - Q_1 ; P_1
- _____ 16. (Figure 75-8: Marginal Private Benefits and Marginal Social Benefits) If government achieves this socially optimal level, it does so by:
- imposing a per-unit tax equal to $P_1 - P_2$.
 - providing a per-unit subsidy of $P_0 - P_2$.
 - mandating consumption at output level Q_1 .
 - leaving the quantity at the initial private market-clearing quantity and price.
 - providing a per-unit subsidy of $P_1 - P_2$.

Scenario 50-1: Market for Taxi Rides

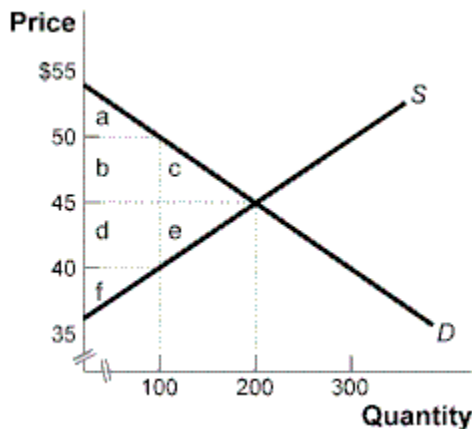


Fare (per ride)	Quantity Demanded (millions of rides per year)	Quantity Supplied (millions of rides per year)
\$7.00	6	14
6.50	7	13
6.00	8	12
5.50	9	11
5.00	10	10
4.50	11	9
4.00	12	8
3.50	13	7
3.00	14	6

- _____ 17. (Scenario 50-1: Market for Taxi Rides) The figure represents a competitive market for taxi rides. If the government now imposes an excise tax of \$1 per ride (causing the supply curve to shift upward by that amount), then the government will collect tax revenues of _____, which might be used for worthwhile purposes, *but* there will be a deadweight loss to society of _____ caused by this tax.
- \$9 million; \$0.5 million
 - \$16 million; \$2 million
 - \$21 million; \$3 million
 - \$24 million; \$4 million
 - \$12 million; \$4 million
- _____ 18. Suppose the government imposes a \$4 excise tax on Good Y. If the demand for Good Y is perfectly inelastic and the supply curve is elastic, then the price of Good Y will:
- increase by more than \$4.
 - increase by exactly \$4.
 - increase, but by less than \$4.
 - remain constant.
 - decrease, but by less than \$4.

19. Suppose the price elasticity of demand for yachts equals 4.04, while the price elasticity of supply for yachts equals 0.22. If Congress reinstates a luxury tax on yachts, how will the burden of the tax be divided?
- Yacht buyers will pay the entire tax while yacht builders will pay no tax at all.
 - Yacht buyers will pay a larger share than yacht builders.
 - Yacht builders and buyers will pay an equal share.
 - Yacht builders will pay the entire tax while yacht buyers will pay no tax at all.
 - Yacht builders will pay a larger share than yacht buyers.

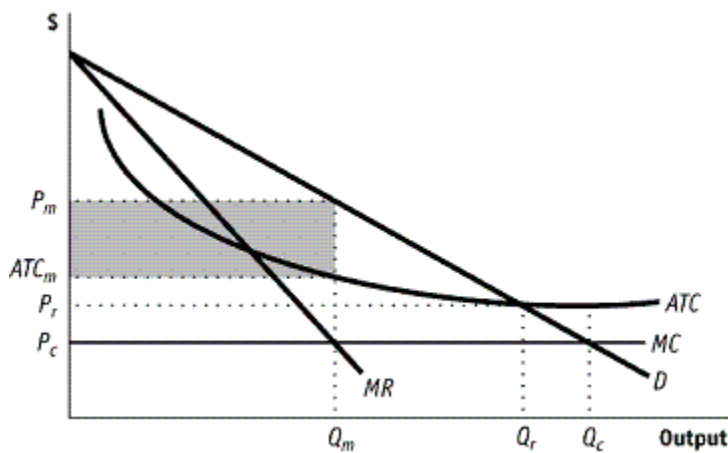
Figure 50-9: Market for Blue Jeans



20. (Figure 50-9: Market for Blue Jeans) The government recently levied a \$10 tax on the producers of blue jeans. Using the graph, identify the area(s) that represent tax revenue.
- $a + b + c$
 - $b + d$
 - $c + e$
 - $d + e + f$
 - $a + b + d + f$
21. (Figure 50-9: Market for Blue Jeans) The government recently levied a \$10 tax on the producers of blue jeans. Using the graph, identify the area(s) that represent the sum of consumer and producer surplus after the tax was levied.
- $a + b + c$
 - $a + b + c + d + e + f$
 - $d + e + f$
 - $a + f$
 - $a + b + d + f$
22. (Figure 50-9: Market for Blue Jeans) The government recently levied a \$10 tax on the producers of blue jeans. Using the graph, identify the area(s) that represent deadweight loss.
- $a + b + c$
 - $b + d$
 - $c + e$
 - $d + e + f$
 - $a + b + d + f$

23. Paying a tax of \$10 on an income of \$100, a tax of \$25 on an income of \$200, and a tax of \$60 on an income of \$300 is an example of a:
- progressive tax.
 - proportional tax.
 - regressive tax.
 - flat tax.
 - sales tax.
24. Suppose the small town of Falls Valley estimates the marginal cost of providing one more treatment for mosquito control at \$100,000. The town should provide the additional mosquito control only if the marginal:
- benefit for any individual citizen is at least \$100,000.
 - benefit of the last individual citizen is zero.
 - social cost of mosquito control is more than \$100,000.
 - social cost of mosquito control is less than \$100,000.
 - benefit for all individual citizens adds up to at least \$100,000.

Figure 77-1: Natural Monopoly

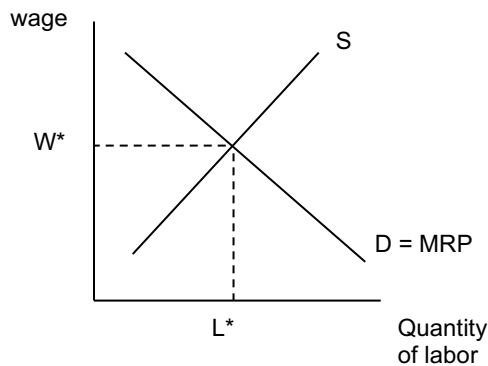


25. (Figure 77-1: Natural Monopoly) The figure above shows a natural monopoly. If the firm is regulated so that the outcome is socially efficient, what will be the corresponding price and quantity?

	Price	Quantity
(A)	ATC_m	Q_m
(B)	P_r	Q_r
(C)	P_m	Q_m
(D)	P_c	Q_c
(E)	MC	Q_c

- A
- B
- C
- D
- E

26. The government has decided to regulate a natural monopoly so that the firm produces the break-even level of output. Compared to the unregulated outcome, one positive consequence of this decision is that:
- the firm will earn very high and “unfair” economic profits.
 - the firm will be encouraged to reduce output and increase the price.
 - the government may need to subsidize the firm’s economic losses.
 - deadweight loss will decrease.
 - consumer surplus will fall.
27. If a nation's Gini coefficient is rising over time, it is an indicator of:
- an increase in the poverty rate.
 - a decrease in the poverty rate.
 - an increase in income inequality.
 - a decrease in income inequality.
 - a decrease in a nation’s overall wealth.



28. In the labor market above, an increase in the productivity of labor, when everything else stays the same, will lead to _____ in the equilibrium quantity of labor and _____ in the equilibrium price of labor.
- a decrease; an increase
 - an increase; a decrease
 - a decrease; a decrease
 - an increase; an increase
 - an increase; no change
29. In the labor market above, a decrease in the price of the good produced, when everything else stays the same, will lead to _____ in the equilibrium quantity of labor and _____ in the equilibrium price of labor.
- a decrease; an increase
 - an increase; a decrease
 - a decrease; a decrease
 - an increase; an increase
 - an increase; no change

- _____ 30. Assume a monopsonistic firm takes control of all hiring in the above labor market. How will the quantity of labor hired and the equilibrium wage change?
- a. employment increases; wage decreases
 - b. employment increases; wage increases
 - c. employment decreases; wage decreases
 - d. employment decreases; wage increases
 - e. employment does not change; wage decreases
- _____ 31. Assume an exclusive union gains control of the supply of labor in the competitive market above. Which of the following is not a strategy the union could use to increase wages?
- a. Restricting union membership through aptitude testing
 - b. Reducing the apprenticeship period needed to become a certified union member
 - c. Charging higher union membership fees
 - d. Advertising for the products union workers produce
 - e. Training union workers in the latest production techniques

Micro III-IV Review Questions

Answer Section

MULTIPLE CHOICE

- | | |
|-----|--------|
| 1. | ANS: B |
| 2. | ANS: B |
| 3. | ANS: A |
| 4. | ANS: C |
| 5. | ANS: E |
| 6. | ANS: B |
| 7. | ANS: B |
| 8. | ANS: A |
| 9. | ANS: A |
| 10. | ANS: E |
| 11. | ANS: B |
| 12. | ANS: A |
| 13. | ANS: C |
| 14. | ANS: A |
| 15. | ANS: C |
| 16. | ANS: B |
| 17. | ANS: A |
| 18. | ANS: B |
| 19. | ANS: E |
| 20. | ANS: B |
| 21. | ANS: D |
| 22. | ANS: C |
| 23. | ANS: A |
| 24. | ANS: E |
| 25. | ANS: D |
| 26. | ANS: D |
| 27. | ANS: C |
| 28. | ANS: D |
| 29. | ANS: C |
| 30. | ANS: C |
| 31. | ANS: B |