1) A tax on a good
   a. raises the price buyers pay and lowers the price sellers receive.
   b. raises both the price buyers pay and the price sellers receive.
   c. lowers both the price buyers pay and the price sellers receive.
   d. lowers the price buyers pay and raises the price sellers receive.

2) Whether a tax is levied on the buyer or seller of the good does not matter because
   a. sellers always bear the full burden of the tax.
   b. buyers always bear the full burden of the tax.
   c. buyers and sellers will share the burden of the tax.
   d. sellers bear the full burden if the tax is levied on them, and buyers bear the full burden if
      the tax is levied on them.

3) When a tax is imposed on a product, quantity demanded
   a. will increase and quantity supplied will decrease.
   b. will decrease and quantity supplied will increase.
   c. and quantity supplied will both increase.
   d. and quantity supplied will both decrease.
   e. will decrease, but quantity supplied will not change.

4) Refer to Figure 8-2. The amount of tax revenue received by the government is equal to the area
   a. $P_3 A C P_1$.
   b. $A B C$.
   c. $P_2 D A P_3$.
   d. $P_1 C D P_2$. 
5) Refer to Figure 8-5. Without the tax, producer surplus in this market would be
   a. $1500.
   b. $2400.
   c. $3000.
   d. $3600.
   e. $4000.
   ANS: B   PTS: 1   DIF: Challenging   REF: 168

6) Refer to Figure 8-5. Without the tax, total surplus in this market would be
   a. $2400.
   b. $3000.
   c. $3600.
   d. $4200.
   e. $6000.

7) Refer to Figure 8-5. If the tax is imposed on the buyer, producer surplus would be
   a. $600.
   b. $900.
   c. $1200.
   d. $1500.
   e. $3000.

8) Refer to Figure 8-5. If the tax is imposed on the seller, producer surplus would be
   a. $600.
   b. $900.
   c. $1200.
   d. $1500.
   e. $3000.

9) Refer to Figure 8-5. When the tax is placed on this good, the quantity sold will
    a. stay at 600 and buyers will still pay $10.
b. fall to 300, but buyers will still pay $10.
c. stay at 600, but buyers will now pay $16.
d. fall to 300, and buyers will now pay $16.

10) Refer to Figure 8-5. If the government imposes the tax in this market, tax revenue will be
   a. $600.
   b. $900.
   c. $1500.
   d. $3000.

11) Refer to Figure 8-5. The amount of the tax placed on this product is
   a. $4.
   b. $6.
   c. $8.
   d. $10.

12) Refer to Figure 8-5. Total surplus with a tax imposed in this market would be
   a. $1500.
   b. $3600.
   c. $4500.
   d. $6000.
   e. None of the above is correct.

13) Refer to Figure 8-5. If the tax is imposed on the buyer, total surplus in this market would be
   a. $1500.
   b. $3600.
   c. $4500.
   d. $6000.
   e. None of the above is correct.

14) Refer to Figure 8-5. If the tax is imposed on the seller, total surplus in this market would be
   a. $1500.
   b. $3600.
   c. $4500.
   d. $6000.
   e. None of the above is correct.
Quiz 6 continued… (Chapter 9)

1. The world price of yo-yo's is $4.00 each. The pre-trade price of yo-yo's in Taiwan is $3.50 each. With free trade, in the yo-yo market in Taiwan consumers
   a. and producers will both lose.
   b. and producers will both benefit.
   c. will lose and producers will benefit.
   d. will benefit and producers will not be affected.

   ANS: C  PTS: 1  DIF: Average  REF: 184-185

2. Refer to Figure 9-1. Without trade, consumer surplus would be
   b. $245.
   c. $420.
   d. $455.
   e. $490.

   ANS: B  PTS: 1  DIF: Challenging  REF: 184-185

3. Refer to Figure 9-1. Without trade, producer surplus would be
   b. $245.
   c. $420.
   d. $455.
   e. $490.

   ANS: A  PTS: 1  DIF: Challenging  REF: 184-185

4. Refer to Figure 9-1. With free trade, this country would
   a. import 70 baskets.
   b. export 65 baskets.
   c. export 35 baskets.
   d. import 40 baskets.
   e. export 105 baskets.

   ANS: B  PTS: 1  DIF: Average  REF: 184-185
5. Refer to Figure 9-1. If this country chooses to trade, the price of baskets in this country would be
   a. $10 and 40 would be sold domestically.
   b. $10 and 70 would be sold domestically.
   c. $10 and 105 would be sold domestically.
   d. $7 and 70 would be sold domestically.
   e. $7 and 40 would be sold domestically.
   ANS: A    PTS: 1    DIF: Challenging    REF: 184-185

6. Refer to Figure 9-1. With free trade, consumer surplus would be
   a. $45.
   b. $80.
   c. $160.
   e. $245.
   ANS: B    PTS: 1    DIF: Challenging    REF: 184-185

7. Refer to Figure 9-1. With free trade, producer surplus would be
   a. $80.
   b. $122.75.
   d. $245.50.
   e. $472.50.
   ANS: E    PTS: 1    DIF: Challenging    REF: 184-185

8. Refer to Figure 9-1. With trade, total surplus increases by
   a. $80.
   b. $97.50.
   c. $162.50.
   d. $195.
   e. $495.50.
   ANS: B    PTS: 1    DIF: Challenging    REF: 184-185

9. Refer to Figure 9-1. For this country, at the world price,
   a. the domestic quantity demanded is greater than the domestic quantity supplied.
   b. the domestic quantity demanded is less than the domestic quantity supplied.
   c. the domestic quantity demanded equals the domestic quantity supplied.
   d. this country should raise the domestic price of baskets.
   ANS: B    PTS: 1    DIF: Average    REF: 184-185

10. Refer to Figure 9-1. This country
    a. has a comparative advantage in baskets.
    b. should import baskets.
    c. cannot be competitive in the world market.
    d. would be better off if the world price for baskets and its pre-trade price were equal.
    e. has an absolute advantage in baskets.
    ANS: A    PTS: 1    DIF: Average    REF: 184-185
11. Refer to Figure 9-1. The world price for baskets represents
   a. the demand for baskets from the rest of the world.
   b. the supply of baskets from the rest of the world.
   c. the level of inefficiency in the domestic market caused by trade.
   d. the gap between domestic quantity demanded and domestic quantity supplied and the
      resulting shortage.

   ANS: A   PTS: 1   DIF: Average   REF: 184-185

12. Refer to Figure 9-1. At the world price
   a. the domestic quantity demanded is greater than the domestic quantity supplied.
   b. the basket market is in equilibrium.
   c. the demand curve is perfectly inelastic.
   d. both domestic producers and consumers will be better off.

   ANS: B   PTS: 1   DIF: Challenging   REF: 184-185

Figure 9-2

13. When a country allows trade and becomes an importer of a good consumer surplus
   a. and producer surplus will increase.
   b. and producer surplus will decrease.
   c. will increase and producer surplus will decrease.
   d. will decrease and producer surplus will increase.

   ANS: C   PTS: 1   DIF: Challenging   REF: 186-187
14. Refer to Figure 9-4. The world price for wagons represents the
   a. demand for wagons from the rest of the world.
   b. supply of wagons from the rest of the world.
   c. level of inefficiency in the domestic market caused by trade.
   d. surplus in the domestic wagon market.
   ANS: B PTS: 1 DIF: Average REF: 186-187

15. Refer to Figure 9-4. This country would
   a. import 20 wagons.
   b. import 30 wagons.
   c. import 50 wagons.
   d. export 20 wagons.
   e. export 50 wagons.
   ANS: C PTS: 1 DIF: Challenging REF: 186-187

16. Refer to Figure 9-4. Without trade, consumer surplus would be
   b. $245.50.
   c. $367.50.
   d. $421.00.
   e. $607.50.
   ANS: C PTS: 1 DIF: Challenging REF: 186-187

17. Refer to Figure 9-4. Without trade, producer surplus would be
   b. $245.
   c. $450.
   d. $455.
   e. $490.
   ANS: B PTS: 1 DIF: Challenging REF: 186-187
18. **Refer to Figure 9-4.** Without trade, total surplus would be
   a. $122.50.
   b. $245.
   c. $306.25.
   d. $367.50.
   e. $612.50.

   ANS: E  PTS: 1  DIF: Challenging  REF: 186-187

19. **Refer to Figure 9-4.** If this country chooses to trade, the price of wagons in this country would be
   a. $8 and 70 wagons would be sold domestically.
   b. $5 and 40 wagons would be sold domestically.
   c. $5 and 50 wagons would be sold domestically.
   d. $5 and 70 wagons would be sold domestically.
   e. $5 and 90 wagons would be sold domestically.

   ANS: E  PTS: 1  DIF: Challenging  REF: 186-187

20. **Refer to Figure 9-4.** With free trade, consumer surplus would be
   a. $245.
   b. $303.75.
   c. $362.50.
   d. $367.50.
   e. $607.50.

   ANS: A  PTS: 1  DIF: Challenging  REF: 186-187

21. **Refer to Figure 9-4.** With free trade, producer surplus would be
   a. $80.
   b. $150.
   c. $160.
   e. $245.

   ANS: A  PTS: 1  DIF: Challenging  REF: 186-187

22. **Refer to Figure 9-4.** With free trade, total surplus would be
   a. $245.
   b. $367.50.
   c. $490.
   d. $607.50.
   e. $687.50.

   ANS: E  PTS: 1  DIF: Challenging  REF: 186-187

23. **Refer to Figure 9-4.** With free trade, total surplus would increase by
   a. $60.
   b. $75.
   c. $135.
   d. $150.

   ANS: B  PTS: 1  DIF: Challenging  REF: 186-187
24. Refer to Figure 9-4. The increase in total surplus resulting from trade is
   a. $60. Since producer surplus increases by $180 and consumer surplus falls by $240.
   b. $60. Since consumer surplus increases by $180 and producer surplus falls by $240.
   c. $0. Since consumer surplus increases by $240 and producer surplus falls by $240.
   d. $75. Since producer surplus increases by $240 and consumer surplus falls by $165.
   e. $75. Since consumer surplus increases by $240 and producer surplus falls by $165.
   ANS: D PTS: 1 DIF: Challenging REF: 186-187

25. Refer to Figure 9-4. If this country allows free trade in wagons,
   a. consumers will gain and producers will lose.
   b. consumers will lose and producers will gain.
   c. both consumers and producers will gain.
   d. both consumers and producers will lose.
   ANS: A PTS: 1 DIF: Average REF: 186-187

26. Refer to Figure 9-4. If this country allows free trade in wagons, producers will
   b. lose by $165.
   c. gain by $45.
   d. gain by $210.
   e. gain by $330.
   ANS: B PTS: 1 DIF: Challenging REF: 186-187

27. Refer to Figure 9-4. If this country allows free trade in wagons, consumers will
   a. lose by $75.
   b. lose by $240.
   c. gain by $240.
   d. gain by $120.
   e. gain by $75.
   ANS: C PTS: 1 DIF: Challenging REF: 186-187

28. Refer to Figure 9-4. If this country allows free trade in wagons
   a. consumers will gain more than producers will lose.
   b. producers will gain more than consumers will lose.
   c. producers and consumers will both gain equally.
   d. producers and consumers will both lose equally.
   ANS: A PTS: 1 DIF: Average REF: 186-187
29. Refer to Figure 9-13. The free-trade price and domestic quantity demanded would be
   a. $P_1, Q_1$
   b. $P_1, Q_4$
   c. $P_2, Q_2$
   d. $P_2, Q_3$
   ANS: B   PTS: 1   DIF: Average   REF: 187-190

30. Refer to Figure 9-13. The domestic price and domestic quantity demanded after the tariff would be
   a. $P_1, Q_1$
   b. $P_1, Q_4$
   c. $P_2, Q_2$
   d. $P_2, Q_3$
   ANS: D   PTS: 1   DIF: Average   REF: 187-190

31. Refer to Figure 9-13. Consumer surplus with free trade would be
   a. A
   b. A + B
   c. A + C + G
   d. A + C + D + E
   e. A + B + C + D + E + F
   ANS: E   PTS: 1   DIF: Average   REF: 187-190

32. Refer to Figure 9-13. Producer surplus with free trade would be
   a. G
   b. C + G
   c. A + B + G
   d. A + C + G
   e. A + B + C + G
   ANS: A   PTS: 1   DIF: Average   REF: 187-190

33. Refer to Figure 9-13. Consumer surplus after the tariff would be
   a. A
   b. A + B
34. Refer to Figure 9-13. Producer surplus after the tariff would be
   a. G
   b. C + G
   c. A + B + G
   d. A + C + G
   e. A + B + C + G
   
   ANS: B  PTS: 1  DIF: Average  REF: 187-190

35. Refer to Figure 9-13. As a result of the tariff, government revenue would be
   a. E
   b. B
   c. B + E
   d. B + D + E + F
   e. D + F
   
   ANS: A  PTS: 1  DIF: Average  REF: 187-190

36. Refer to Figure 9-13. As a result of the tariff, deadweight loss would be
   a. E
   b. B
   c. B + D
   d. D + F
   e. B + D + E + F
   
   ANS: D  PTS: 1  DIF: Average  REF: 187-190
Quiz 6 continued (Chapter 10)

1. The term market failure refers to
   a. a situation in which the market, on its own, fails to allocate resources efficiently.
   b. an unsuccessful advertising campaign which reduces demand.
   c. a situation in which competition among firms becomes ruthless.
   d. a firm which is forced out of business because of losses.

   ANS: A  PTS: 1  DIF: Easy  REF: 205

2. An externality exists when
   a. the government intercedes in the operation of private markets by forcing the market to adjust to the balance of supply and demand.
   b. markets are not able to reach equilibrium.
   c. a firm sells its product in a foreign market.
   d. a person engages in an activity that influences the well-being of a bystander and yet neither pays nor receives payment for that effect.

   ANS: D  PTS: 1  DIF: Average  REF: 206

3. Negative externalities occur when one person's actions
   a. cause another person to lose money in a stock market transaction.
   b. cause his or her employer to lose business.
   c. reveal his or her preference for foreign-produced goods.
   d. adversely affect the well-being of a bystander who is not party to the action.

   ANS: D  PTS: 1  DIF: Average  REF: 206

4. If education produces positive externalities we would expect
   a. government to tax education.
   b. government to subsidize education.
   c. people to realize the benefits and therefore cause demand for education to increase.
   d. colleges to relax admission requirements.

   ANS: B  PTS: 1  DIF: Average  REF: 206

**Figure 10-3**

6. Refer to **Figure 10-3**. This market is experiencing
   a. government intervention.
   b. a positive externality.
   c. a negative externality.
   d. None of the above are correct.
7. Refer to Figure 10-3. The equilibrium quantity would be at
   a. $Q_1$.
   b. $Q_2$.
   c. $Q_3$.
   d. $Q_4$.
   ANS: C  PTS: 1  DIF: Average  REF: 208

8. Refer to Figure 10-3. The optimum amount of this product from society's standpoint would be
   a. $Q_1$.
   b. $Q_2$.
   c. $Q_3$.
   d. $Q_4$.
   ANS: B  PTS: 1  DIF: Average  REF: 208

9. Refer to Figure 10-3. At $Q_3$
   a. the marginal consumer values this product less than the social cost of producing it.
   b. every consumer values this product less than the social cost of producing it.
   c. the cost to society is equal to the value to society.
   d. the marginal consumer values this product more than the private cost.
   ANS: A  PTS: 1  DIF: Challenging  REF: 208

10. Refer to Figure 10-3. If this market currently produces $Q_3$, total economic well-being would be increased if
    a. production decreased to $Q_2$.
    b. production increased to $Q_4$.
    c. this product were no longer produced.
    d. Since well-being is maximized at $Q_3$ it cannot be increased.
    ANS: A  PTS: 1  DIF: Challenging  REF: 208

11. Refer to Figure 10-3. If this market is currently producing at $Q_1$, then total economic well-being would increase if output
    a. increased to $Q_2$.
    b. increased to $Q_3$.
    c. increased to $Q_4$.
    d. stayed at $Q_1$.
    ANS: A  PTS: 1  DIF: Easy  REF: 209

12. Refer to Figure 10-3. If this market is currently producing at $Q_4$, then total economic well-being would increase if output
    a. increased.
    b. decreased to $Q_3$.
    c. decreased to zero.
    d. stayed at $Q_4$.
    ANS: B  PTS: 1  DIF: Average  REF: 209
13. Refer to Figure 10-3. If this market currently produces \( Q_2 \), total economic well-being would be maximized if
   a. production decreased to \( Q_1 \).
   b. production increased to \( Q_3 \).
   c. this product were no longer produced.
   d. output stayed at \( Q_2 \).
   ANS: D     PTS: 1     DIF: Average     REF: 209

14. Refer to Figure 10-3. If all external costs were internalized, then the market’s equilibrium output would be
   a. \( Q_1 \).
   b. \( Q_2 \).
   c. \( Q_3 \).
   d. \( Q_4 \).
   ANS: B     PTS: 1     DIF: Average     REF: 211

15. Refer to Figure 10-3. Externalities in this market could be internalized if
   a. there were a tax on the product.
   b. there were a subsidy on the product.
   c. production were stopped.
   d. the Coase Theorem failed.
   ANS: A     PTS: 1     DIF: Challenging     REF: 211

16. Refer to Figure 10-3. This market
   a. has no need for government intervention.
   b. would benefit from a tax on the product.
   c. would benefit from a subsidy placed on the product.
   d. would optimize total well-being at \( Q_3 \).
   ANS: B     PTS: 1     DIF: Average     REF: 217-218

17. Suppose that at present there are no laws to restrict pollution produced by the widget industry. The market price of a widget is $20. If the government imposes a tax equal in value to the cost of the pollution, then firms would continue to produce widgets if
   a. the cost imposed by the pollution is less than $20 per widget produced.
   b. the private cost of producing a widget equals the cost of the pollution generated per widget.
   c. $20 minus the private cost of producing a widget is greater than the cost of the pollution generated per widget.
   d. $20 minus the private cost of producing a widget is less than the cost of the pollution generated per widget.
   ANS: C     PTS: 1     DIF: Challenging     REF: 208-211
18. Refer to Figure 10-2. The social cost curve is above the supply curve because
a. it takes into account the external costs imposed on society by the concert organizers.
b. municipalities always impose noise restrictions on concerts in parks surrounded by
   residential neighborhoods.
c. concert tickets are likely to cost more than the concert actually costs the organizers.
d. residents in the surrounding neighborhoods get to listen to the concert for free.

ANS: A  PTS: 1  DIF: Average  REF: 208

19. Refer to Figure 10-2. The difference between the social cost curve and the supply curve reflects the
a. profit margin of each concert.
b. cost of spillover effects from the concert (e.g., noise and traffic).
c. value of concerts to society as a whole.
d. amount by which the city should subsidize the concert organizers.

ANS: B  PTS: 1  DIF: Average  REF: 208

20. Refer to Figure 10-2. What price and quantity combination best represents the optimum price and
    number of concerts that should be organized?
a. $P_1, Q_1$
b. $P_2, Q_0$
c. $P_3, Q_1$
d. The optimum quantity is zero concerts as long as residents in surrounding neighborhoods
   are adversely affected by noise and congestion.

ANS: B  PTS: 1  DIF: Average  REF: 208

21. Refer to Figure 10-2. At the private market outcome, the equilibrium price will be
a. $P_0$.
b. $P_1$.
c. $P_2$.
d. $P_3$.

ANS: B  PTS: 1  DIF: Average  REF: 208

22. Refer to Figure 10-2. Total surplus derived from the most efficient outcome is represented by the area
a. $a + b$. 
b. \( a + b + c + d + e + f \).
c. \( a + b + c + e + g \).
d. \( a + b + c + d \).


23. **Refer to Figure 10-2.** Assume that the concert organizers must purchase a concert permit (the cost for the permit is included in private cost) before organizing the concert. What criteria should the city use in determining whether or not to issue a permit?

a. The majority vote of the residents in surrounding neighborhoods should determine whether a permit is issued.
b. As long as the value to consumers of concerts exceeds the cost of concerts (including the external costs) the permit should be issued.
c. As long as concert organizers are willing to return the park to its original condition after the concert, the permit should be issued.
d. The permit should not be issued as long as there are identifiable external costs imposed on residents in surrounding neighborhoods.

ANS: B   PTS: 1   DIF: Challenging   REF: 219

24. Internalizing a negative externality will cause the supply curve of an industry to

a. shift to the right.
b. shift to the left.
c. expand.
d. remain unchanged.

ANS: B   PTS: 1   DIF: Average   REF: 211

25. According to the Coase theorem, private parties can solve the problem of externalities if

a. the cost of bargaining is small.
b. the initial distribution of rights favors the person being adversely affected by the externality.
c. the number of parties involved is sufficiently large.
d. All of the above are correct.

ANS: A   PTS: 1   DIF: Average   REF: 215

26. If the government were to limit the release of air-pollution produced by a steel mill to 10,000 units, this policy would be considered a

a. regulation.
b. Pigovian tax.
c. subsidy.
d. market-based policy.

ANS: A   PTS: 1   DIF: Easy   REF: 217

27. Two firms, A and B, each currently dump 50 tons of chemicals into the local river. The government has decided to reduce the pollution and from now on will require a pollution permit for each ton of pollution dumped into the river. The government gives each firm 20 pollution permits, which it can either use or sell to the other firm. It costs Firm A $100 for each ton of pollution that it eliminates before it reaches the river and it costs Firm B $50 for each ton of pollution that it eliminates before it reaches the river. It is likely that

a. Firm A will buy all of Firm B's pollution permits. Each one will cost between $50 and $200.
b. Firm B will buy all of Firm A's pollution permits. Each one will cost between $50 and $200.

c. Both firms will use their own pollution permits.

d. Firm A will buy all of Firm B's pollution permits. Each one will cost less than $50.

e. None of the above are correct.

ANS: E          PTS: 1          DIF: Challenging       REF: 219-221