2.) Taxes cause deadweight losses because they

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| a. | lead to losses in surplus for consumers and for producers that, when taken together, exceed tax revenue collected by the government. |
| b. | distort incentives to both buyers and sellers. |
| c. | prevent buyers and sellers from realizing some of the gains from trade. |
| d. | All of the above are correct. |

3.) Assume, for the U.S., that the domestic price of pineapples without international trade is lower than the world price of pineapples. This suggests that, in the production of pineapples,

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| --- | --- |
| a. | the U.S. has a comparative advantage over other countries and the U.S. will export pineapples. |
| b. | the U.S. has a comparative advantage over other countries and the U.S. will import pineapples. |
| c. | other countries have a comparative advantage over the U.S. and the U.S. will export pineapples. |
| d. | other countries have a comparative advantage over the U.S. and the U.S. will import pineapples. |

4.) When a country allows trade and becomes an importer of bottled water, which of the following is ***not*** a consequence?

|  |  |
| --- | --- |
| a. | The gains of domestic consumers of bottled water exceed the losses of domestic producers of bottled water. |
| b. | The losses of domestic producers of bottled water exceed the gains of domestic consumers of bottled water. |
| c. | The price paid by domestic consumers of bottled water decreases. |
| d. | The price received by domestic producers of bottled water decreases.\ |

5.) When the government places a tax on a product, the cost of the tax to buyers and sellers

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| --- | --- |
| a. | is less than the revenue raised from the tax by the government. |
| b. | is equal to the revenue raised from the tax by the government. |
| c. | exceeds the revenue raised from the tax by the government. |
| d. | Without additional information, such as the elasticity of demand for this product, it is impossible to compare the cost of a tax to buyers and sellers with tax revenue. |

6.) Joy sells 200 glasses of iced tea at $0.50 each. Her total costs are $25. Her profits are

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| --- | --- |
| a. | $25. |
| b. | $75. |
| c. | $100. |
| d. | $175. |

7.) Which of the following represents a way that a government can help the private market to internalize an externality?

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| --- | --- |
| a. | taxing goods that have negative externalities |
| b. | subsidizing goods that have positive externalities |
| c. | The government cannot improve upon the outcomes of private markets. |
| d. | Both a and b are correct. |

8.) Under which of the following scenarios would a park be considered a club good?

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| --- | --- |
| a. | Visitors to the park must pay an admittance fee, but there are always plenty of empty picnic tables. |
| b. | Visitors to the park must pay an admittance fee and frequently all of the picnic tables are in use. |
| c. | Visitors can enter the park free of charge and there are always plenty of empty picnic tables. |
| d. | Visitors can enter the park free of charge, but frequently all of the picnic tables are in use. |

9.) The U.S. military defends Jacob from foreign attackers. The fact that Jacob enjoys this protection does not detract from others Americans’ enjoyment of it. For this reason, we say that national defense is

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| --- | --- |
| a. | excludable. |
| b. | not excludable. |
| c. | rival in consumption. |
| d. | not rival in consumption. |

10.) Who among the following is a free rider?

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| --- | --- |
| a. | Mickey buys groceries from the store where he works. |
| b. | Donald rides to work with Betsey, but he pays Betsey for gasoline and other travel-related expenses. |
| c. | Fred drives 20,000 miles a year on public streets, but he pays no more in property taxes than Barney, who only drives 1,000 miles. |
| d. | Wilma watches many public television programs, but she has never sent in a contribution to the station. |

11.) Which of the following is a *disadvantage* of government provision of a public good such as national defense?

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| --- | --- |
| (i) | The government does not know the exact willingness of consumers to pay for the public good. |
| (ii) | The free-rider problem is more likely to occur when the government provides a public good than when the private sector provides a public good. |
| (iii) | Taxpayers do not agree on the optimal quantity of the public good that the government should provide. |
| a. | (i) only |
| b. | (i) and (ii) only |
| c. | (i) and (iii) only |

12.) Economists normally assume that the goal of a firm is to

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| a. | maximize its total revenue. |
| b. | maximize its profit. |
| c. | minimize its explicit costs. |
| d. | minimize its total cost. 13.) 13.) Suppose Larry, Moe, and Curly are bidding in an auction for a mint-condition video of Charlie Chaplin's first movie. Each has in mind a maximum amount that he will bid. This maximum is called

|  |  |
| --- | --- |
| a. | a resistance price. |
| b. | willingness to pay. |
| c. | consumer surplus. |
| d. | producer surplus. |

 |

Answers:

1. A
2. D
3. A.
4. B.
5. C.
6. B.
7. D.
8. A.
9. D.
10. D.
11. C.
12. B
13. B