

CHAPTER 2

- 1) When the market is in equilibrium,
  - a) Total surplus is minimized
  - b) Total surplus is maximized without government intervention
  - c) Government maximizes total revenue
  - d) None of the above

ANS: B

- 2) The difference between the minimum price the producer is willing to accept and the price the producer actually receives for a product is referred to as:
  - a) market surplus
  - b) market shortage
  - c) buyer surplus
  - d) seller surplus.

ANS: D

- 3) If you are willing to sell your lawn mower business for \$355,000 and someone offers you \$420,000 for it, this transaction will generate:
  - a) There is no surplus created
  - b) \$65,000 worth of seller surplus and unknown amount of buyer surplus
  - c) \$30,000 worth of buyer surplus and \$35,000 of seller surplus
  - d) \$65,000 worth of buyer surplus and unknown amount of seller surplus

ANS: B

- 4) Taxes cause:
  - a) Market distortions
  - b) Reduce incentives to work
  - c) Decrease wealth creating transactions
  - d) All of the above

ANS: D

- 5) A price ceiling is binding when
  - a) the government sets price above market equilibrium price.
  - b) the equivalent of an implicit tax on producers and an implicit subsidy to consumers.
  - c) the government sets price below market equilibrium price.
  - d) Both b and c.

ANS: B

- 6) Economic reasoning is based on the premise that:
  - a) all decisions or actions are costless.
  - b) only non-economic decisions or actions have a cost associated with them.
  - c) only economic decisions or actions have a cost associated with them.
  - d) all decisions and actions have a cost associated with them.

ANS: D

- 7) Social forces:
  - a) affect the price mechanism through cultural norms.
  - b) affect the price mechanism through the educational system.
  - c) affect the price mechanism through scarcity.

- d) do not affect the price mechanism.

ANS: A

- 8) One lesson of business:

- a) is tracing the consequences of a policy
- b) promoting a policy change to eradicate inefficiencies
- c) buy a low-valued assets and sell it to someone who values it higher.
- d) None of the above

ANS: C

- 9) The difference between the maximum price the consumer is willing to pay and the price the consumer actually pays for a product is referred to as:

- a) market surplus
- b) market shortage
- c) buyer surplus
- d) seller surplus.

ANS: C

- 10) If you are willing to sell your car business for \$500,000 and someone offers you \$420,000 for it, this transaction will generate:

- a) There is no surplus created
- b) \$80,000 worth of seller surplus and unknown amount of buyer surplus
- c) \$40,000 worth of buyer surplus and \$40,000 of seller surplus
- d) \$80,000 worth of buyer surplus and unknown amount of seller surplus

ANS: A

- 11) If you are willing to purchase a house for \$300,000 and you purchase the house for \$275,000, this transaction will generate:

- a) There is no surplus created
- b) \$25,000 worth of seller surplus and unknown amount of buyer surplus
- c) \$10,000 worth of buyer surplus and \$15,000 of seller surplus
- d) \$25,000 worth of buyer surplus and unknown amount of seller surplus

ANS: D

- 12) If you are willing to purchase a house for \$500,000 and you purchase the house for \$500,000 , this transaction will generate:

- a) There is no surplus created
- b) \$0 worth of seller surplus and unknown amount of buyer surplus
- c) \$0 worth of buyer surplus and unknown amount of seller surplus
- d) Not information provided

ANS: C

- 13) Total surplus or gains created from trade equal

- a) Seller surplus
- b) Buyer surplus
- c) The summation of seller and buyer surplus
- d) Profits earned by a firm

ANS: C

- 14) The biggest advantage of capitalism is that

- a) It generates wealth with the help of government intervention
- b) Prices hinder in moving assets from high-value to low-value uses
- c) It forces involuntary exchanges
- d) It creates wealth by letting a person follow his or her own self-interest

ANS: D

15) The authors feel subsidies destroy wealth because

- a) subsidies move assets from lower- to higher- valued uses
- b) subsidies move assets from higher- to lower- valued uses
- c) subsidies help producers only
- d) subsidies help consumers only

ANS: B

16) Government can intervene in the market through

- a) Price floors
- b) Price ceilings
- c) Taxes
- d) All the above

ANS: D

17) Government intervention

- a) provides incentives to conduct business in an illegal black market
- b) plays no role in generating wealth
- c) is the best way to eliminate poverty
- d) does not enforce property rights

ANS: A

18) Wealth creating transactions are less likely to occur

- a) Without private property rights
- b) Without contract enforcement
- c) Both a and b
- d) None of the above

ANS: D

19) An example of price floor is

- a) Minimum wages
- b) Rent controls in New York
- c) Both a and b
- d) None of the above

ANS: A

20) Price ceilings cause

- a) Some suppliers to drop out of the market as they cannot charge the price they were earlier charging
- b) A reduction in the quality of the product
- c) The creation of black markets
- d) All the above

ANS: D

21) A consumer values a car at \$30,000 and a producer values the same car at \$20,000. If the transaction is completed at \$24,000, the transaction will generate:

- a) No surplus
- b) \$4,000 worth of seller surplus and unknown amount of buyer surplus
- c) \$6,000 worth of buyer surplus and \$4,000 of seller surplus
- d) \$6,000 worth of buyer surplus and unknown amount of seller surplus

ANS: C

- 22) A consumer values a car at \$30,000 and a producer values the same car at \$20,000. If the transaction is completed at \$24,000, the transaction will not take place if:
- a) The tax is equal to the seller surplus
  - b) The tax is smaller than the total surplus
  - c) The tax is larger than the total surplus
  - d) The tax is smaller than the buyer surplus

ANS: C

- 23) A consumer values a car at \$30,000 and a producer values the same car at \$20,000. If the transaction is completed at \$24,000, what level of tax rate will result in unconsummated transaction?
- a) 0%
  - b) 25%
  - c) 20%
  - d) 40%

ANS: D

- 24) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If the transaction is completed at \$510,000, the transaction will generate:
- a) No surplus
  - b) \$25,000 worth of seller surplus and unknown amount of buyer surplus
  - c) \$15,000 worth of buyer surplus and \$25,000 of seller surplus
  - d) \$25,000 worth of buyer surplus and unknown amount of seller surplus

ANS: C

- 25) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If the transaction is completed at \$510,000, what amount of tax will result in unconsummated transaction?
- a) A tax of \$9,000
  - b) A tax of \$14,000
  - c) A tax of \$15,000
  - d) A tax of \$18,000

ANS: D

- 26) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If the transaction is completed at \$510,000, what level of tax rate will result in unconsummated transaction?
- a) 1%
  - b) 5%
  - c) 3%
  - d) 2%

ANS: B

- 27) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If sales tax is 8% and is levied on the seller, then the sellers bottom line price is

- a) \$527,000
- b) \$523,800
- c) \$525,000
- d) \$500,000

ANS: B

- 28) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If sales tax is 8% and is levied on the buyer, then the buyers top dollar price is
- a) \$525,000
  - b) \$523,800
  - c) \$485,000
  - d) \$486,111

ANS: D

- 29) Some critics of capitalism argue that
- a) There is too much government intervention in the economy
  - b) Involuntary trade generates no wealth
  - c) If one person makes money, someone else must be losing it
  - d) Voluntary trade ensures gains for both consumers and producers

ANS: C

- 30) Price ceilings are primarily targeted to help
- a) No one
  - b) Consumers
  - c) Producers
  - d) Government

ANS: B

- 31) Price floors are primarily targeted to help
- a) No one
  - b) Consumers
  - c) Producers
  - d) Government

ANS: C

- 32) Rent controls
- a) Is an example of price floors
  - b) Is an example of price ceilings
  - c) Destroy wealth by preventing the movement of apartments to higher-valued use.
  - d) Both b and c

ANS: D

- 33) Price gouging
- a) Outlaw trade at prices above a certain price level
  - b) Outlaw trade at prices below a certain price level
  - c) Is an act of charging a high price to take advantage of shortages created by natural disasters
  - d) None of the above

ANS: C

34) An individual's value for a good or service is the

- a) The amount of money he or she used to pay for a good
- b) The amount of money he or she is willing to pay for it
- c) The amount of money he or she has to spend on goods
- d) None of the above

ANS: B

35) The difference between Capitalism and Socialism is that

- a) Capitalism is concerned more about how to slice up the "pie"
- b) Socialism is concerned with making the "pie" as large as possible
- c) Capitalism is concerned with making the "pie" as large as possible
- d) Both a and B

ANS: C