Homework Assignment 1

Due Date: July 17 (in class)

Solve the following multiple-choice problems and mark your answers on the scantron you were given. Write your name and section number on the scantron. (Each problem is worth 2 points)

1. Al Gore claims that we should reduce the budget deficit in order to save social security. What type of statement is this?
   (a) A macro-analytical statement
   (b) A geometric statement
   (c) A normative statement
   (d) A positive statement

2. Michelle decides to go to the movies instead of going to the beach (her second choice). What is Michelle’s opportunity cost of going to the movies?
   (a) Going to the movies does not have an opportunity cost because it is her first choice
   (b) All the other things she could have been doing if she did not go to the movies
   (c) The costs of the movie ticket and the drive to the movie theater
   (d) The enjoyment she would receive from going to the beach

3. Larissa decides to move to a different job when her employer reduces her salary. This behavior best illustrates that:
   (a) People make decisions on the margin
   (b) Information is often costly
   (c) Resources are costly
   (d) Incentives matter

4. What will happen if the price of a good is above the equilibrium price?
   (a) There will be a excess demand and buyers will bid down the price of the good
   (b) There will be a excess supply and sellers will lower the price of the good
   (c) There will be a excess supply and buyers will bid up the price of the good
   (d) There will be a excess demand and sellers will raise the price of the good

5. Which of the following is most likely to decrease the price of printers
   (a) An increase in the number of computers producers
   (b) An increase in the number of consumers
   (c) A rise in the price of automobiles
   (d) An increase in income tax
6. If the National Institute for Health declares that tea can help prevent cancer and at the same time a drought destroys over half of the tea supply. What will happen to the quantity and price of tea as a result of these events?
   (a) Quantity will increase but price can increase, decrease or remain the same
   (b) Quantity will decrease but price can increase, decrease or remain the same
   (c) Price will increase but quantity can increase, decrease or remain the same
   (d) Price will decrease but quantity can increase, decrease or remain the same

7. It costs $11 to produce the first watch, $14 to produce the second watch and $20 dollars to produce the third watch. How much producer surplus is there in the market if the price of each watch sold is $17?
   (a) $3
   (b) $6
   (c) $9
   (d) $12

8. Which one of these goods is non-rival but excludable?
   (a) Cable television
   (b) An apple pie
   (c) The ocean
   (d) Air

9. Which one of the following is an example of an externality?
   (a) A factory pollutes a nearby lake but compensates the users of the lake by paying them
   (b) Mike heats up his apartment, which helps heat the apartment next to his neighbor
   (c) Jack punches John in the nose after he catches John trying to steal his jacket
   (d) Rachel gets sick after eating spoiled food at a restaurant

10. Which of the following will decrease the equilibrium price but will increase the equilibrium quantity of digital cameras?
    (a) A technological improvement that makes the production of digital cameras cheaper
    (b) A decrease in the price of printers that are used to print digital pictures
    (c) An decrease in the number of companies that produce digital cameras
    (d) An increase in income tax

11. Which of the following scenarios is the best illustration of the Law of Demand?
    (a) Mike decreases his consumption of beef and increases his consumption of chicken after the price of beef increases
    (b) Stanley buys more cloths after his income goes up
    (c) The consumption of restaurants meals in Myrtle Beach increases as a result of more tourists coming to the area
    (d) Beatrice’s Bakery decides to produce more bagels and less doughnuts when demand for bagels increases
Use figure 1-1 (below), which shows a price ceiling in the market for DVDs, to answer problems 12 through 14:

![Figure 1-1: Price Ceiling](image)

12. **How much excess demand does this price ceiling create?**
   (a) This ceiling does not create excess demand because it is below the equilibrium price
   (b) 10 units
   (c) 12 units
   (d) 15 units

13. **What is the change in consumer surplus that results from this price ceiling?**
   (a) $-30
   (b) $-20
   (c) $+20
   (d) $+30

14. **How much deadweight loss does this price ceiling create?**
   (a) $25
   (b) $40
   (c) $50
   (d) $75

Use figure 1-2 (below), which shows the market for books with a $9 excise (sales) tax, to answer problems 15 through 17:

![Figure 1-2: Excise Tax](image)
15. How much revenue does the government collect from this tax?
(a) $9
(b) $36
(c) $42
(d) $54

16. How much producer surplus is left after the tax is instituted?
(a) $6
(b) $9
(c) $12
(d) $18

17. What proportion of the tax do consumers pay?
(a) 1/3
(b) 2/5
(c) 2/3
(d) 1/2

For each of the events in problems 18 through 20, state what will happen to the equilibrium price and equilibrium quantity of DVD players?

18. The price of large screen TVs rises?
(a) Price and quantity will both increase
(b) Price and quantity will both decrease
(c) Price will increase but quantity will decrease
(d) Price will decrease but quantity will increase

19. The number of electronic firms that produce DVD players increase?
(a) Price and quantity will both increase
(b) Price and quantity will both decrease
(c) Price will increase but quantity will decrease
(d) Price will decrease but quantity will increase

20. The cost of the computer chips that are used to produce DVD Players increases?
(a) Price and quantity will both increase
(b) Price and quantity will both decrease
(c) Price will increase but quantity will decrease
(d) Price will decrease but quantity will increase