Problems Set 1

1. Scarcity will occur when which of the following is true?
   (a) People are confused and are not sure what they want
   (b) There are unlimited resources and limited needs
   (c) There are unlimited needs and limited resources
   (d) There are many resources and few needs

2. Which one of these policies is most likely to create excess supply in the market?
   (a) Excise (sale) tax
   (b) Income tax
   (c) A price floor
   (d) A price ceiling

3. Why do economist argue that markets are efficient at providing private goods?
   (a) Because they maximize total surplus
   (b) Because they maximize firms’ profit
   (c) Because they maximize consumer surplus
   (d) Because they maximize the quantity that can be produced given a level of technology

4. Which one of these resources falls under the category of land?
   (a) A wooden table
   (b) A diamond
   (c) Paper
   (d) Electricity

5. What does microeconomics investigate?
   (a) How the stock market and the market for loanable funds operate
   (b) How individual and firms make decisions
   (c) How large, aggregated markets operate
   (d) How economies grow and interact

6. Professor Economicus proves that an increase in price of one good will cause consumers to buy more of a substitute. Professor Economicus is using:
   (a) Microeconomics
   (b) Macroeconomics
   (c) Normative economics
   (d) Positive economics

7. Which one of these events is likely to cause the price of coffee to increase?
   (a) A decrease in the price of tea
   (b) An increase in the price of milk
   (c) A drought that destroys half of the coffee crop
   (d) An increase in the number of coffee growers around the world
8. **What will happen to the price and quantity of a good if demand for the good decreases and at the same time supply for the good increases?**
(a) Price will increase, but quantity may increase, decrease or remain the same
(b) Price will fall, but quantity may increase, decrease or remain the same
(c) Quantity will increase, but price may increase, decrease or remain the same
(d) Quantity will decrease, but price may increase, decrease or remain the same

9. **Which of the following events is likely to increase the quantity of Sport Utility Vehicles purchased?**
(a) An increase in the price of gasoline
(b) An increase in the price of tires and engine parts
(c) An increase in the price of pickup trucks
(d) An increase in the price of computers

10. **Which of the following events is likely to decrease the price of books and decrease their quantity?**
(a) An increase in the number of consumers who buy books
(b) An increase in the number of book sellers
(c) An increase in the cost of paper
(d) An increase in income tax

11. **Which one of these policies is likely to create a deadweight loss?**
(a) A price ceiling
(b) A price floor
(c) An excise tax
(d) All of the above are likely to create a deadweight loss

12. **Which one of these goods is non-rival but excludable?**
(a) Radio waves (from a radio station)
(b) A swimming pool
(c) National defense
(d) A computer

13. Allison has a beautiful voice and she enjoys singing on the street for free. Most people truly enjoy her singing. This is an example of:
(a) A negative externality
(b) A positive externality
(c) A market failure
(d) Excess supply

14. **Why do governments impose price ceilings?**
(a) In order to increase market efficiency by lowering the price of essential goods
(b) In order to raise government revenue
(c) In order to gain political support
(d) All of the above
Use figure 1 (below), which shows a market with a price floor of $16, to answer problems 15 through 18.

15. How much excess supply does the price floor shown in figure 1 create?
   (a) 0 units (it has no effect on the market)
   (b) 6 units
   (c) 12 units
   (d) 16 units

16. How much consumer surplus was there before the price floor was instituted?
   (a) $15
   (b) $20
   (c) $50
   (d) $100

17. What is the change in producer surplus that results from this price floor?
   (a) $42
   (b) $6
   (c) $6
   (d) $24

18. How much deadweight loss does this price floor create?
   (a) $12
   (b) $18
   (c) $24
   (d) $36
19. **Why is it important that governments regulate monopolies?**
   (e) Because it is not fair that only one company receives all the revenue in an industry
   (f) Because monopolies create a deadweight loss by under-producing
   (g) Because monopolies make some people very rich and create income inequalities
   (h) Because monopolies do not maximize producer surplus

20. **Which one of these effects will a tax create?**
   (a) It will increase consumer surplus
   (b) It will increase producer surplus
   (c) It will raise government revenue
   (d) It will lower deadweight loss