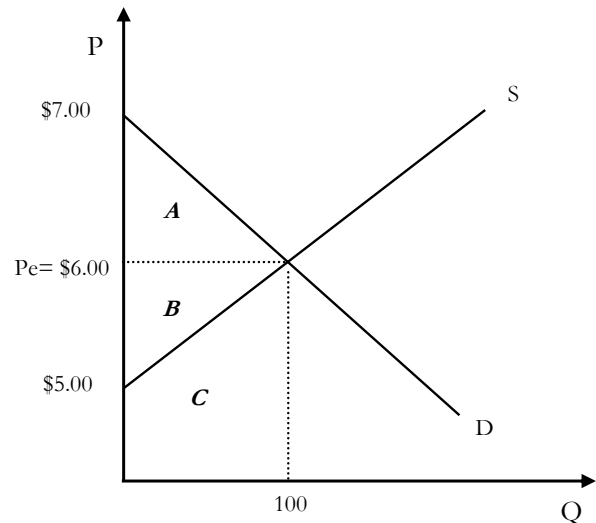


EXAM 2

Instructions: The exam contains 50 multiple choice questions. Indicate the best answer to each question on your Akindi sheet. You must complete and submit the exam by **10:40** sharp. Books, notes, calculators, and phones are not allowed.

Answer questions 1-6 using the figure to the right, which illustrates the market for tacos.



1. What area represents the consumer surplus from the market when $P = \$6.00$?
a. A b. B c. C
2. What is the monetary value of the consumer surplus in the taco market?
a. \$3 b. \$50 c. \$100 d. \$200
3. What area represents the producer surplus from the market when $P = \$6.00$?
a. A b. B c. C
4. What area represents the total cost of producing the equilibrium quantity of tacos?
a. A b. B c. C d. B-C e. A+B+C
5. What area represents the total benefit from consuming the equilibrium quantity of tacos?
a. A b. A+C c. C d. A+B e. A+B+C
6. What area represents the net benefit to society overall (i.e., total benefits minus total costs) from producing and consuming the equilibrium quantity of tacos?
a. A b. B c. A+B d. A+B-C
7. In the competitive market for wheat in the Springfield farming example, *efficiency in production* required that
a. firms with higher costs charged higher prices.
b. the marginal costs of all producers were equal.
c. the total costs of all producers were equal.
d. firms with high marginal costs exited the industry.
8. Hazlitt's point in "The Fetish of Full Employment" is that
a. anything that creates jobs helps the economy.
b. full employment should be the goal of any nation/economy.
c. full production should be the goal of any nation/economy.
d. primitive tribes had both full employment and full production.

9. A “deadweight loss” is a _____. Economists consider deadweight losses to be _____.
- lost opportunity to make money; neutral to the economy
 - loss to taxpayers because they do not get anything in return from government; good for the economy
 - a type of economic loss now plaguing the U.S. because 1/3 of us are obese; bad for the economy
 - cost to one group or person not offset by a benefit to another group or person; bad for the economy

The graph below illustrates the market for cigarettes in Charleston. The city government has decided to impose an excise tax on cigarettes, in the amount of τ per pack. Use the graph to answer questions 10-12.

10. What is the per-pack amount of the excise tax that is illustrated in the graph?

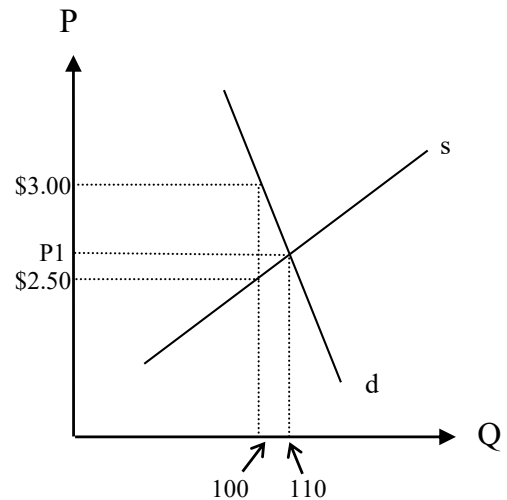
- \$0.10
- \$0.40
- \$0.50
- \$0.60
- [This can't be determined from the graph.]

11. What is the total tax revenue to government from the excise tax?

- \$55
- \$50
- \$40
- \$10

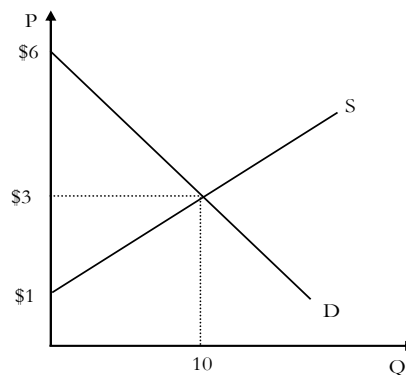
12. Which group bears a larger share of the excise tax burden?

- [This can't be determined from the graph.]
- producers; they bear the entire tax burden because the government imposed it on them
- producers; however, consumers also bear a small portion of the tax burden
- consumers; however, producers also bear a portion of the tax burden



13. What are the values of the consumer surplus (CS) and producer surplus (PS) triangles in the figure to the right?

- CS = \$10; PS = \$10
- CS = \$30; PS = \$30
- CS = \$30; PS = \$20
- CS = \$60; PS = \$30
- CS = \$15; PS = \$10



14. According to Hazlitt's chapter, "Saving the X industry," should governments rescue troubled or unprofitable industries by using tax receipts to subsidize those industries?

- Yes, if the industry is deemed to be "too big to fail."
- Yes, if the industry is producing "green energy."
- Yes, if the industry is responsible for a large number of jobs in the economy.
- No, because industries dying are also important for a dynamic economy to grow.
- No, because the only way an industry would be "troubled" is if its product has been killing customers.

15. In considering his chapters on price controls (16-19), one can conclude that Henry Hazlitt believes...
- price controls are beneficial for the economy.
 - price controls generally have a negative effect on an economy.
 - price controls are beneficial in cases when the equilibrium price is particularly unfair to producers.
 - price controls are beneficial in cases when the equilibrium price is particularly unfair to consumers.
16. Why would you be more likely to see racial discrimination (in housing markets) occurring in rent-controlled cities, compared to non-rent-controlled cities?
- If, as the result of the rent-controls, landlords cannot allocate apartments based on price, they must use some form of non-price rationing.
 - Statistically, rent-controlled communities simply have more racists.
 - Rent-control laws are most prevalent where there is a high proportion of whites; these are the people most likely to discriminate against other races.
 - There is no legitimate reason to expect any difference in racial discrimination between rent-controlled and non-rent-controlled cities.
17. If the demand for a particular product is inelastic (i.e., consumers are not price sensitive), then what happens to a firm's total revenue if the firm increases the price to consumers?
- total revenue will change, but in an unpredictable direction
 - total revenue from the product will decrease
 - total revenue from the product will increase
 - total revenue from the product will remain exactly the same.

Answer questions 18-20 using the table to the right, which illustrates P and MC for two different industries.

Product	Price (or MR)	MC
Skirts	\$77	\$68
Jackets	\$105	\$110

18. Which industry earned a profit on the last unit it produced?
- [It's impossible to tell from the information given.]
 - Skirts
 - Jackets
19. What would you expect to happen in the future to the allocation of productive input resources across the industries?
- Input resources should flow out of the skirt industry, into the jacket industry.
 - Input resources should flow out of the jacket industry, into the skirt industry.
 - Input resources should flow out of both industries, and into some other industry, not shown in the table.
 - [None of the above; the current allocation of resources is efficient.]
20. What should happen to P in the skirt industry as input resources are re-allocated across the industries?
- P should remain constant.
 - P should fall.
 - P should rise.

21. What happens in the market for beer in Missouri as (i) the price of marijuana (a substitute for beer) falls, and (ii) the hops crop (used in the production of beer) suffers a massive drought, killing much of it.
- Pe falls, change in Q_e is uncertain
 - Pe rises, change in Q_e is uncertain
 - change in Pe is uncertain, Q_e falls
 - change in Pe is uncertain, Q_e rises
22. If the government imposes an effective price floor, which side of the market is likely to be “unsatisfied,” in the sense that that side of the market will be unable to engage in as many transactions as they would like at the government mandated price? (Hint: Draw a graph to see this easier.)
- consumers
 - suppliers
 - government
 - [all of the above]
23. News commentators, politicians, and many voters often misunderstand “profits” as taking advantage of consumers. This is a misunderstanding because it...
- does not take into account consumers surplus, and the fact that transactions are mutually beneficial.
 - does not account for the fact that the profiting companies’ employees are also those companies’ majority of customers.
 - ignores that fact that, more often than not, profit comes from sellers ripping off consumers by producing shoddy products.
 - fails to consider the fact that the profits are entirely taxed away anyway and given back to consumers.
24. In Landsburg’s *The Armchair Economist* (ch. 7), he claims the only tax that does not result in a deadweight loss is a “head tax,” which is a per-unit tax on heads of lettuce purchased at grocery stores. a. True b. False
25. In Landsburg’s *The Armchair Economist* (ch. 21), he argues that international trade theory suggests that, if you protect American producers in one industry from foreign competition, then American producers in all other industries benefit too. a. True b. False
26. In Landsburg’s *The Armchair Economist* (ch. 8), he explains that the fundamental reason that elephants are near extinction, but cows are not, is that cows are typically privately owned and elephants are not. a. True b. False
27. In Landsburg’s *The Armchair Economist* (ch. 10), he argues that the benefits of drug legalization are greater than the costs, overall. a. True b. False
28. In Landsburg’s *The Armchair Economist* (ch. 8), the “disentailment” agreement would benefit all birds of paradise, but there is a strong incentive for cheating. a. True b. False
29. In Landsburg’s *The Armchair Economist* (ch. 4), the admission fee to the Springfield aquarium increases the money cost but lowers the waiting cost of going to the aquarium. a. True b. False
30. A price floor set above the equilibrium price will always cause a(n) _____. a. surplus b. reduction of scarcity c. riot d. shortage

31. People or corporations that make huge profits are often seen in a negative light by the general public because they earn these profits from consumers, who are “forced to pay unfairly high prices for the products they need.” Suppose government made it illegal for individuals or corporations to earn profits, so that everyone must sell their products at the cost of production. What changes would you expect in the standard of living in such a society?
- Consumers would be better off; they’d now be able to purchase all the things they used to, but at lower prices—their real incomes would increase.
 - Producers would be harmed because their profits are eliminated, but consumers would not be affected.
 - Consumers would benefit since producers would produce according to the needs of consumers, instead of trying to maximize profits.
 - Consumers would benefit since they would pay lower prices, but producers would not be affected, since they (producers) try to maximize utility, not profits.
 - Consumers would be worse off, since without a profit incentive, many goods would not be produced in the first place.
32. In a market economy, prices serve as information signals. What information do prices give?
- [all of the following answers]
 - Prices indicate the relative scarcity of goods and services.
 - Prices act as signals to resource owners and producers, giving them information as to where their resources can be most profitably employed.
 - Prices ration goods to the consumers who have the greatest demand for them.
 - Prices allocate input resources to the relatively efficient producers in the economy.
33. Based on your understanding of rent controls, which of the following groups would most likely end up with the apartments in downtown Charleston if a rent control law was enacted?
- homeless drug addicts
 - poor working people
 - CofC students
 - professionals with proof of income
34. “Protectionist policies,” such as import tariffs and quotas, are policies designed to...
- create benefits for domestic consumers at the expense of foreign governments.
 - create benefits for domestic producers at the expense of domestic consumers.
 - generate tax revenues for city governments; tariffs are the main source of city government revenue.
 - increase overall wealth in the country that’s imposing the trade restrictions.
35. In his chapter about “How the Price System Works,” Hazlitt uses the examples of _____ and _____ to help show that, in an economy, one industry or occupation can only expand at the expense of other industries or occupations.
- Robinson Crusoe; Swiss Family Robinson
 - factories; banks
 - submarines; aircraft carriers
 - teachers; factory workers
36. The more substitutes there are for a particular good, the more _____ the consumers will be for that good.
- price sensitive
 - price insensitive
 - serious
 - [none of the above]

The table to the right illustrates production data for Charleston's three restaurants that serve barbeque pork, by the pound.

Use this information to answer questions 37 & 38. You may wish to fill-in some of the missing data to help you.

	Lewis BBQ		Swig & Swine BBQ		Melvin's BBQ	
Pounds of BBQ	MC	TC	MC	TC	MC	TC
1	\$10		\$11	\$11		\$6
2	\$12		\$12	\$23		\$15
3	\$14		\$13	\$36		\$27
4	\$15		\$14	\$50	\$15	\$42
5	\$18		\$15	\$65	\$18	\$60

37. Suppose you are Charleston's socialist "Barbeque Czar," responsible for making the production decisions for the city's supply of BBQ. Assume you would like a total of 7 pounds produced this week. How much BBQ are you going to assign to each producer, assuming you want to minimize the total cost (TC) of the 7 pounds of food?

- Lewis (2), Swig&Swine (2), Melvin's (3)
- Lewis (3), Swig&Swine (4), Melvin's (0)
- Lewis (3), Swig&Swine (3), Melvin's (1)
- Lewis (1), Swig&Swine (2), Melvin's (3)
- Each firm will produce 2.333 pounds.

38. Suppose instead of being "centrally planned" by government, there is a competitive market economy in Charleston, and each firm seeks to maximize its profit. How many pounds of BBQ will each firm produce if the market price is **\$15** per pound?

- Lewis (3), Swig&Swine (4), Melvin's (3)
- Lewis (4), Swig&Swine (4), Melvin's (4)
- Lewis (4), Swig&Swine (5), Melvin's (4)

39. Hazlitt's chapter 17, "Government Price-Fixing" is discussed in the context of what historical period?

- during the Christian Revolution of 3 B.C. – 2 A.D.
- prior to the Russian Revolution of 1917
- during and after World War II
- during the stagflation of the early 1970s
- after September 11, 2001

40. In the lecture on U.S. drug control policy, Prof Walker drew a graph of the "drug" market. When the federal government focuses its enforcement on the supply side of the market, S falls. Overall drug use does not decrease much because...

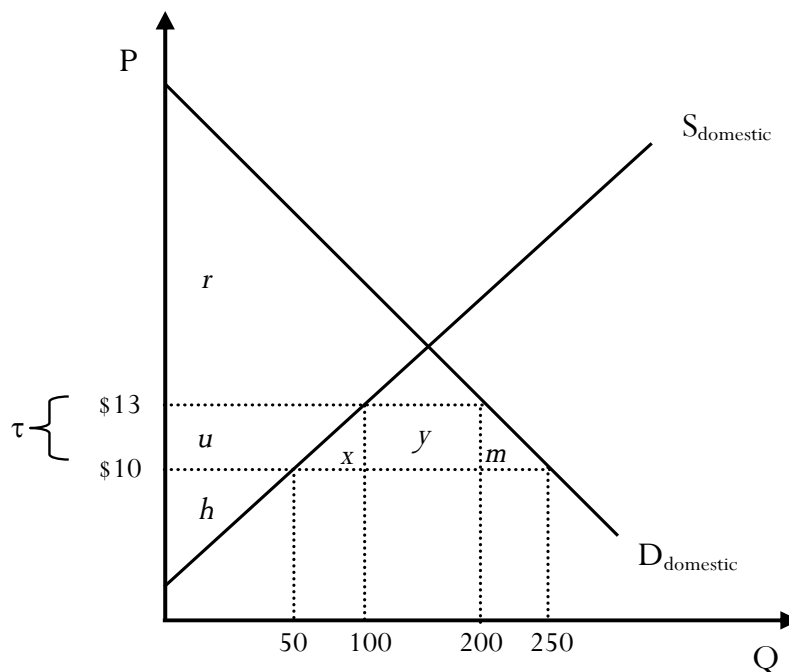
- the demand curve is very steep.
- the supply curve is very flat.
- few consumers overdose on marijuana.
- there is a price ceiling on drugs.

41. One of the arguments against a minimum wage law is that those people most likely to be unemployed under a minimum wage have...
- college degrees.
 - incomes higher than the US average.
 - little experience, few skills, and less education than average.
 - more experience than the average worker.
42. Recall Hazlitt's chapter 11, "Who's 'Protected' by Tariffs?" Suppose the U.S. imposes a tariff on steel imported from Korea, which brings the price of Korean steel up to the same price as U.S.-made steel. As a result, more American-made, and less Korean-made steel is sold in the U.S. How will U.S. **exporting industries** be affected by the tariff on imported steel?
- They won't be affected.
 - They will benefit because now more foreigners will buy more of their products.
 - They will be harmed since foreigners will have fewer U.S. dollars with which to buy U.S.-made products.
 - They will benefit because now more money will be spent here than in Korea.
43. In his chapter "The Drive for Exports," Hazlitt emphasizes that the reason we export is to...
- keep Americans in high paying jobs.
 - ensure that teenagers are able to find a first job that pays a living wage.
 - ensure that the American Culture is influential around the globe.
 - pay for imports.
44. In his chapter, "The Function of Profits," one of Hazlitt's key arguments is that...
- the market system of profit-and-loss was designed by wealthy people to benefit only wealthy people.
 - firms who are able to find more efficient ways to produce are rewarded with profits.
 - because workers earn wages (hourly pay) rather than profit from sales, workers are almost never paid fairly.
 - the main benefit of profits is that corporations are required to file tax returns, which makes profits easier for government to identify and tax.
45. We discussed several examples of price controls, such as rent controls and minimum wage laws. One of the key conclusions of our analysis was that these policies...
- always achieve their intended goals.
 - often harm the people they're intended to help.
 - benefit everyone in society.
 - usually create more benefits than costs.

Answer questions 46-50 using the figure to the right, which illustrates the market for t-shirts. The U.S. government has imposed a \$3 tariff per imported t-shirt.

46. The world price (P_w) is \$10, and the price in the U.S. after the tariff is imposed ($P_w + \tau$) is \$13. What area represents the tariff (tax) revenue the government will receive?

- u
- y
- $x + m$
- $u + h$



47. What change in the quantity of imports is caused by the tariff being imposed?

- decrease of 100
- increase of 200
- increase of 100
- decrease of 200
- decrease of 300

48. The import tariff will cause a change in the domestic supply of t-shirts. By what amount will this variable change?

- increase of between 65 and 80
- increase of 50
- decrease of 50
- [no change in domestic production]
- [the change cannot be determined]

49. What is the change in consumer surplus (CS) that results from the tariff being imposed?

- increase of $u + y$
- decrease of $u + x + y + m$
- decrease of $x + m$
- increase of r

50. What area represents the wasteful use of resources, when domestic firms are encouraged to increase production, due to the tariff? (Hint: It's part of the DWL.)

- u
- $x + m$
- $u + h$
- x