Micro Chapter 4 Study Guide Questions 13e

Multiple Choice
*Identify the choice that best completes the statement or answers the question.*

___ 1. An increase in the demand for a product will cause output to
   a. increase and both the demand for and prices of the resources used to produce the product to increase.
   b. increase and both the demand for and prices of the resources used to produce the product to decrease.
   c. decrease; the demand for the resources used to produce the product will remain constant.
   d. decrease; the price of resources used to produce the product will decrease.

___ 2. Which of the following is a true statement regarding the economic impact of a subsidy?
   a. The distribution of the benefits from a subsidy will depend on whether the subsidy is legally granted to the buyer or seller.
   b. When demand is relatively inelastic, the benefits of a subsidy will mainly accrue to sellers.
   c. When supply is relatively elastic, the benefits of a subsidy will mainly accrue to buyers.
   d. When demand is relatively elastic, the benefits of a subsidy will mainly accrue to buyers.

___ 3. During the imposition of price controls in the 1970s, long gasoline lines were common. In the absence of price controls, markets would have eliminated such excess demand by
   a. allowing the price to rise, so gas was rationed to those willing to pay the most for it.
   b. increasing the gap between supply and demand.
   c. allowing price to decline, so the poor could afford to buy more gas.
   d. mandating a 50-mile-per-hour speed limit to reduce consumption.

___ 4. If an increase in the government-imposed minimum wage pushes the price (wage) of unskilled labor above market equilibrium, which of the following will most likely occur in the unskilled labor market?
   a. an increase in demand for unskilled labor
   b. a decrease in the supply of unskilled labor
   c. a shortage of unskilled labor
   d. a surplus of unskilled labor

___ 5. With a price ceiling above the equilibrium price,
   a. quantity demanded would exceed quantity supplied.
   b. quantity supplied would exceed quantity demanded.
   c. the market would be in equilibrium.
   d. the equilibrium price would be expected to fall over time.

___ 6. Rent controls generally fix the price of rental housing below market equilibrium. Economic analysis suggests these controls
   a. are effective in helping the poor find housing.
   b. improve the quality of housing available to consumers.
   c. create a surplus of rental housing.
   d. reduce the future supply of rental housing.
7. Currently, federal and state gasoline taxes (imposed statutorily on the sellers of gasoline) amount to about $.45 per gallon. Suppose the current price of gasoline is $1.20 per gallon, and that if the tax was not in place, the price would be only $.80.
   a. The full incidence of the tax is falling on consumers.
   b. The full incidence of the tax is falling on suppliers.
   c. A $.05 burden is being borne by sellers and $.40 by consumers.
   d. A $.05 burden is being borne by consumers and $.40 by sellers.

8. The deadweight loss resulting from levying a tax on an economic activity is
   a. the tax revenue directed to the government as the result of the tax.
   b. the loss of potential gains from trade from activities forgone because of the tax.
   c. the increase in the price of an activity as the result of the tax levied on it.
   d. the marginal benefits derived from the expansion in government activities made possible by the increase in tax revenues.

9. Suppose there is an increase in the excise tax imposed on cigarettes, a good for which the demand is relatively inelastic. The short-run burden of the tax increase will be borne primarily by
   a. consumers, because the increase in market price will be large relative to the increase in the excise tax.
   b. firms, because the increase in market price will be large relative to the increase in the excise tax.
   c. consumers, because the increase in market price will be small relative to the increase in the excise tax.
   d. firms, because the increase in market price will be small relative to the increase in the excise tax.

10. In the mid-1940s, the marginal income tax rate in the top income tax bracket was 94 percent. In the 1960s, the top rate was lowered to 70 percent, and in the 1980s, the top rate was again lowered to 28 percent. The data show that as a result of these tax rate reductions, tax revenue (particularly from the rich) increased. This is consistent with the idea illustrated with the
   a. Laffer curve.
   b. production possibilities curve.
   c. supply of loanable funds curve.
   d. demand for unskilled labor curve.

11. The Laffer curve illustrates the principle that
   a. when tax rates are quite high, reducing tax rates will increase tax revenue.
   b. when tax rates are quite low, reducing tax rates will increase tax revenue.
   c. when tax rates are quite high, reducing tax rates will decrease tax revenue.
   d. increasing tax rates always increases tax revenue.

12. A legal minimum wage is an example of
   a. the invisible hand principle.
   b. a price floor.
   c. a price ceiling.
   d. a fringe benefit.

13. Both price floors and price ceilings, when effective, lead to
   a. shortages.
   b. surpluses.
   c. an increase in the quantity traded.
   d. a reduction in the quantity traded.
14. If there was an increase in the tax on cell phones, what would be the effect on the equilibrium price and quantity of cell phones?
   a. price increases, quantity decreases
   b. price decreases, quantity decreases
   c. price increases, quantity increases
   d. price decreases, quantity increases

15. The more elastic the supply of a product, the more likely it is that the burden of a tax will
   a. fall on sellers.
   b. fall on buyers.
   c. fall equally on both buyers and sellers.
   d. be borne by the public sector, and not by market participants.

**Critical Thinking and Application**

16. Suppose the United Auto Workers union obtains a substantial wage increase for auto workers. How will this affect the market for automobiles?

17. Joanne states, "If raising the minimum wage to $10 an hour is good, like Senator Largess suggests, then raising it to $20 an hour would be twice as good." Is Joanne correct? Why or why not?

18. Lowincomesville, North Carolina, is a poor town. The mayor has decided to impose a law to cut all rental rates on apartments in half and to fix them at this level. Will this help the poor? Why or why not? Be sure to distinguish between the short run and the long run.

19. Bill the butcher is upset because the government plans to tax beef $.10 a pound. "I hate paying taxes," he says. "Because of this, I'm raising all my beef prices by $.10 a pound. The consumers will bear this burden, not me." Do you see anything wrong with this way of thinking? Explain.
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Answer Section

MULTIPLE CHOICE

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