

Exam 2 Review

1. In the city of Wellville, there's a rule that rent prices should be affordable for all families. If the government sets a maximum limit on rent prices so that people can meet this rule, this is an example of a(n):

a.minimum wage law.

b.illegal price.

c.fair housing law.

d.rent control.

e.price ceiling.

2. When are people most likely to buy or sell goods and services illegally?

a. When there are both binding and nonbinding price controls.

b. When there are non-binding price ceilings.

c. When there are non-binding price floors.

d. When there are binding price ceilings or binding price floors.

e. When there are no price controls."

3. What is a likely outcome of a price ceiling on apartment rents?

- a. More apartments will be available for rent than people want to rent.
- b. Landlords may reduce the quality of apartment maintenance.
- c. Rent prices will rise above the set ceiling.
- d. There will be a surplus of apartments available.
- e. Renters will have more options and choices for apartments.

4. Demand: $Q_d = 3000 - 6P$
Supply: $Q_s = -600 + 12P$

- a. What would be the quantity demanded if a price ceiling is set at \$150? 2100
- b. What would be the quantity supplied if a price ceiling is set at \$150? 1200
- c. What would be the equilibrium quantity for laptops? . 1800
- d. What will be the shortage when $P=150$. 900
- e. What will happen if a price floor is set at \$300,. 1800 surplus

5. Producers will bear more of the tax burden than consumers if:

- a. Supply is less elastic than demand.
- b. Demand and supply have equal elasticity.
- c. Demand is perfectly elastic.
- d. Demand is less elastic than supply.
- e. Supply is perfectly inelastic.

7. What kind of price elasticity of demand does a luxury good have:

- a. highly elastic demand.
- b. very low demand.
- c. highly elastic supply.
- d. very low supply.
- e. highly inelastic demand.

8. A powerplant emitting polluted air into the city atmosphere is an ____ cost

- a. Internal
- b. Production
- c. Opportunity
- d. Public-good
- e. External

Q	Internal Cost	Social Cost	P
5	\$30	\$40	\$50
10	\$35	\$45	\$45
15	\$40	\$50	\$40
20	\$45	\$55	\$35
25	\$50	\$60	\$30
30	\$55	\$65	\$25

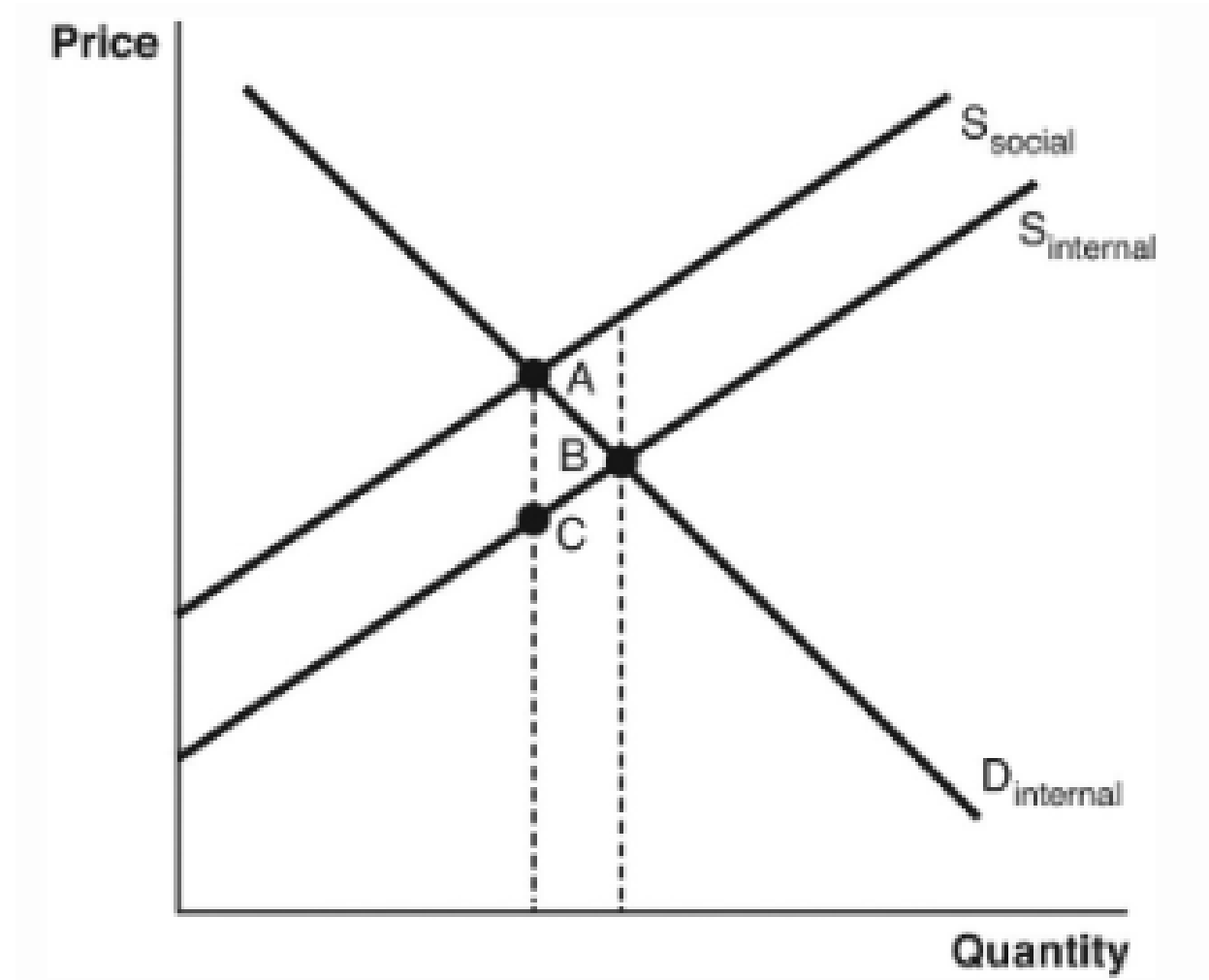
- What is the external cost per 5 unit? 5
- What is the market equilibrium price? 40
- What is the market equilibrium quantity? 15
- What is the socially optimum price? 45
- What is the socially optimum quantity 10

10. If a market has positive externality, it will ____ the good as the market participants ignore the ____ of their decision

- a. overproduce; external benefit
- b. overproduce; external cost
- c. underproduce; external cost
- d. underproduce; external benefit
- e. overproduce; internal benefit

11. What is the deadweight loss

- a. A
- b. B
- c. C
- d. $A+B+C$
- e. $A+B$



12. What is a good method to reach a socially optimum for a good producing positive externalities?

- a. Mandate that firms implement equipment to control pollution.
- b. Enforce changes in production methods for firms to lower emissions.
- c. Provide subsidies to firms to help decrease their production expenses.
- d. Impose a tax on the good's production.
- e. Require firms to cover the costs of the environmental harm they cause.

13. What will a company do ensure profitability?

- a. The company needs to maximize revenue.
- b. The company needs to minimize costs.
- c. The company needs to minimize costs and maximize revenue.
- d. The company needs to maximize costs and minimize revenue.
- e. The company needs only to provide products that customers want.

14. Why is economic profit lower than accounting profit?

- a. Economic profit is lower because it includes implicit costs, unlike accounting profit.
- b. Economic profit only considers cash expenses, while accounting profit includes all forms of income.
- c. Economic profit uses a different calculation method that generally reduces overall profit.
- d. Economic profit is reduced by higher taxes, which do not affect accounting profit.
- e. Economic profit excludes all business expenses, unlike accounting profit.

15. Sandra owns a bakery. Last year, her total revenue was \$480,000, and her total labor costs were \$150,000. Her operating expenses, including utilities and insurance, were \$120,000, and the rent for her shop was \$50,000. Sandra could earn \$90,000 per year working as a pastry chef at another bakery nearby. If her total revenue increases to \$550,000 this year, with all other expenses remaining the same, what is her economic profit now?

a. \$160,000

b. \$200,000

c. \$140,000

d. \$90,000

e. \$0

16. What are the factors of production?

- a. revenue, profits, and costs.
- b. labor, wages, and training.
- c. price, quantity, and profits.
- d. land, labor, and capital.
- e. capital, interest, and savings.