Economics 2030
Problem Set 3
T. Perri

Problems 1–3 refer to **Figure 1.**

1. With market clearing,
 a. CS = a + b & PS = c + d
 b. CS = a + b & PS = b + f
 c. CS = a + e & PS = b + c + f
 d. CS = a + b & PS = c + f

2. With a ceiling price set below market clearing
 a. CS = a + b & PS = c
 b. CS = a & PS = c
 c. CS = a + b + c & PS = d
 d. none of the above

3. With a ceiling price set below market clearing
 a. DWL = e
 b. DWL = e + f
 c. DWL = e + f + g
 d. none of the above

4. A negative externality is a
 a. cost imposed on sellers
 b. cost imposed on buyers
 c. benefit that goes to sellers
 d. cost borne by people other than the buyer or seller

5. When negative externalities are present in a market
a. sellers will be affected but not buyers
b. demand will be too high
c. the market will still produce an optimal amount
d. overuse will occur

6. When a positive externality exists in a market, the benefit to buyers is
a. less than the benefit to society
b. the same as the benefit to society
c. greater than the benefit to society
d. zero

7. The Coase theorem may not solve the problems of externalities if
a. some people benefit from the externality
b. there are costs associated with the externality
c. there are few parties involved with the externality
d. the number of parties is large

8. If vaccines yield positive externalities
a. government should tax vaccines
b. people will realize the full benefits of the vaccine, so the demand for vaccines increases
c. the private market will underuse vaccines
d. the private market will overuse vaccines

9. Resources that are non-rival but are excludable are called
a. club goods
b. public goods
c. common
d. private goods

10. The deadweight loss of a tax results from which of the following?
  a. consumers buy more goods & producers sell more goods
  b. consumers buy more goods, but producers sell fewer goods
  c. producers sell more goods, but consumers buy less
  d. consumers no longer by some goods they value more than it costs producers to make.

Use the following information to answer questions 11-13. A Hunter produces 2 units of meat (M) per day or 1 unit of bread (B). A Baker produces 1 M or 2 B per day.

11. If Hunters and Bakers spend half their time (3.5 days) in each activity, they will produce how much combined?
 a. 10 M & 7 B
 b. 7 of each good
 c. 6 of each good
 d. 10.5 of each good

12. If a Hunter specializes in M, & a Baker specializes in B, total output of M & B will be (if both produce just one good)
 a. 6 M & 4 B
 b. 4 M & 6B
 c. 14 of each good
 d. 10 of each good

13. One unit of M will trade for between
 a. ½ & 2 units of B
 b. 2 & 4 units of B
 c. 1 & 2 units of B
 d. no trade will occur

14. If a nation can make a good using fewer resources than its trading partners, the nation has
 a. an absolute advantage
 b. a trade deficit
 c. a trade surplus
 d. a comparative advantage

15. If a nation can make a good at a lower opportunity cost than its trading partner, the nation has
   a. an export
   b. an import
   c. an absolute advantage
   d. a comparative advantage

16. Which of the following is NOT an example of a public good?
   a. telephones
   b. fireworks
   c. national defense
   d. (non-satellite) radio programs

Questions 17 & 18 refer to the following information. Demand & supply are $P = 700 - 2Q$ & $P = 100 + Q$

17. Market-clearing P & Q are
   a. $400 & 100
   b. $300 & 200
   c. $367.33 & 267.33
   d. none of the above

18. With a $30 per unit tax on sellers, market-clearing P & Q are
   a. $320 & 190
   b. $300 & 200
   c. $400 & 100
   d. none of the above

19. In democratic countries, politicians typically reward which of the following groups?
   a. diffused groups
   b. concentrated groups
   c. poor and low income
   d. none of the above

20. Rent seeking is
   a. good because it creates jobs
   b. a deadweight loss unless it involves bribes
   c. a deadweight loss if it involves bribes
   d. a net gain for society

P   Figure 1

S

a

e

f

Ceiling P

b

c

g

d

D

50   80

Q
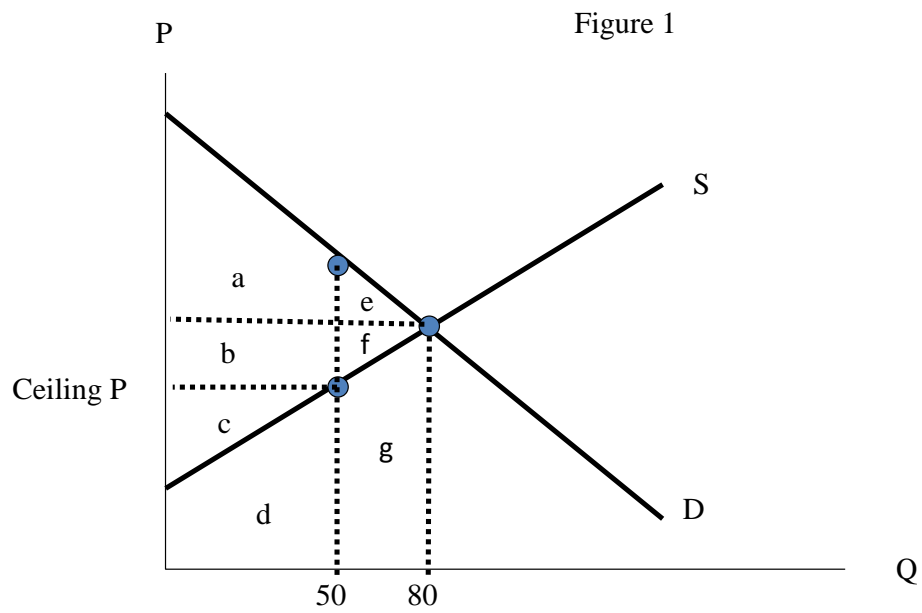
Answers are listed below.[*]

[*] 1) c, 2) a, 3) b, 4) d, 5) d, 6) a, 7) d, 8) c, 9) a, 10) d, 11) d, 12) c, 13) a, 14) a, 15) d, 16) a, 17) b, 18) a, 19) b, 20) b.