Sample Exam Questions/Chapter 5

1. A binding price ceiling is designed to:
   A) keep prices low.
   B) increase the quality of the good.
   C) prevent shortages.
   D) increase efficiency.

Use the following to answer question 2:

<table>
<thead>
<tr>
<th>Price ($/unit)</th>
<th>Quantity Demanded (cans)</th>
<th>Quantity Supplied (cans)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.50</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>0.75</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>1.00</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>1.25</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>1.50</td>
<td>2</td>
<td>11</td>
</tr>
</tbody>
</table>

2. (Table: The Market for Soda) Look at the table The Market for Soda. If the government imposes a price ceiling of $0.50 per can of soda, there will be:
   A) a shortage of 2 cans.
   B) a shortage of 3 cans.
   C) a surplus of 3 cans.
   D) equilibrium in the market for soda.
3. (Figure: Rent Controls) Look at the figure Rent Controls. If rent controls are set at \( R_{ent1} \):
A) rental apartments may be of inefficiently low quality.
B) there will be an efficient allocation of rentals.
C) some landlords may break the law by renting below the mandated price.
D) new apartments will be constructed.

Use the following to answer question 4:

Figure: The Market for Hybrid Cars
4. (Figure: Market for Hybrid Cars) Look at the figure The Market for Hybrid Cars. What area represents deadweight loss if there is a binding price floor at $P_1$?
   A) $a + b + c$
   B) $b + c + d + e$
   C) $c + e$
   D) $c$

5. A price control is:
   A) when a firm controls the price of the good it produces.
   B) a legal restriction on how high or low a price in a market may go.
   C) an upper limit on the quantity of some good that can be bought or sold.
   D) a tax placed on the sale of a good which controls the market price.

6. If the minimum wage is a binding price floor, then:
   A) the number of workers who want to work will be greater than the number of jobs available.
   B) the equilibrium wage will increase.
   C) there will be a job for everyone who is willing to work.
   D) business owners will hire more workers.

Use the following to answer question 7:

**Table: Market for Butter**

<table>
<thead>
<tr>
<th>$P$</th>
<th>$Q_d$</th>
<th>$Q_s$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.20$</td>
<td>9.0</td>
<td>12.0</td>
</tr>
<tr>
<td>1.10</td>
<td>9.5</td>
<td>11.0</td>
</tr>
<tr>
<td>1.00</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>0.90</td>
<td>10.5</td>
<td>9.0</td>
</tr>
<tr>
<td>0.80</td>
<td>11.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Note: $P =$ price per lb. in $\$;
$Q_d =$ Quantity demanded in millions of lbs.;
$Q_s =$ Quantity supplied in millions of lbs.

7. (Table: Market for Butter) Look at the figure Market for Butter. If the government imposes a price floor of $0.90 per pound of butter, the quantity of butter actually purchased will be:
   A) 10.5 million pounds.
   B) 9.0 million pounds.
   C) 1.5 million pounds.
   D) 10.0 million pounds.
8. Price controls encourage black markets because:
   A) they eliminate opportunity costs.
   B) individuals can profit by illegal exchanges.
   C) they create too much efficiency.
   D) they create too much equity.

9. One of the ways rent control is inefficient is that it leads to:
   A) higher-quality apartments.
   B) high opportunity costs associated with wasted time searching for apartments.
   C) markets that maximize total surplus.
   D) the construction of more apartments.

Use the following to answer question 10:

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>5</td>
<td>90</td>
<td>40</td>
</tr>
<tr>
<td>10</td>
<td>80</td>
<td>55</td>
</tr>
<tr>
<td>15</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>20</td>
<td>60</td>
<td>85</td>
</tr>
</tbody>
</table>

10. (Table: Quantity Supplied and Quantity Demanded) Look at the table Quantity Supplied and Quantity Demanded. Excess supply would exist in this market if a price floor equal to ________ was imposed in this market.
   A) $5
   B) $10
   C) $15
   D) $20
11. (Figure: Price Controls) Look at the graph Price Controls. An effective price floor would be at price ________ and a ________ would result of the difference between points________.
   A) c; surplus; f and e
   B) b; surplus; f and e
   C) d; shortage; i and h
   D) b; shortage; f and e

12. A price ceiling will have no effect if:
   A) it is set above the equilibrium price.
   B) the equilibrium price is above the price ceiling.
   C) it is set below the equilibrium price.
   D) it creates a shortage.

13. Suppose the government sets a price floor below the current price of the good. This price floor will:
   A) result in an excess supply of the good.
   B) result in an excess demand for the good.
   C) have no effect on the price of the good.
   D) increase the quantity supplied of the good.
Use the following to answer question 14:

<table>
<thead>
<tr>
<th>Price (unit)</th>
<th>Quantity Demanded (units)</th>
<th>Quantity Supplied (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.10</td>
<td>9,000</td>
<td>3,000</td>
</tr>
<tr>
<td>1.20</td>
<td>8,000</td>
<td>5,000</td>
</tr>
<tr>
<td>1.30</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>1.40</td>
<td>6,000</td>
<td>9,000</td>
</tr>
<tr>
<td>1.50</td>
<td>5,000</td>
<td>1,100</td>
</tr>
</tbody>
</table>

14. (Table: Market for Fried Twinkies) Look at the table The Market for Fried Twinkies. In response to popular anger over the high price of fried Twinkies and the extreme wealth of fried Twinkie producers, the government imposes a price ceiling of $1.20 per fried Twinkie. From this table, the price ceiling causes:

A) a shortage of 3,000 fried Twinkies.
B) a shortage of 5,000 fried Twinkies.
C) a surplus of 8,000 fried Twinkies.
D) a surplus of 3,000 fried Twinkies.
**Answer Key**

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