Sample Exam Questions/Chapter 5

Use the following to answer question 1:

Table: Market for Apartments

<table>
<thead>
<tr>
<th>Rent (per apartment per month)</th>
<th>Quantity Demanded (millions of apartments)</th>
<th>Quantity Supplied (millions of apartments)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,400</td>
<td>1.6</td>
<td>2.4</td>
</tr>
<tr>
<td>1,300</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>1,200</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>1,100</td>
<td>1.9</td>
<td>2.1</td>
</tr>
<tr>
<td>1,000</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>900</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>800</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>700</td>
<td>2.3</td>
<td>1.7</td>
</tr>
<tr>
<td>600</td>
<td>2.4</td>
<td>1.6</td>
</tr>
</tbody>
</table>

1. (Table: Market for Apartments) Look at the table Market for Apartments. If a price ceiling of $700 is imposed on this market, the result will be an inefficiency in the form of a _____ million apartments.
   A) shortage of 0.6
   B) surplus of 0.2
   C) shortage of 0.2
   D) surplus of 0.6

2. When price controls take the form of maximum prices set below the equilibrium price, they are:
   A) price ceilings.
   B) price floors.
   C) illegal.
   D) equal to the demand price.

3. A price ceiling on a good often results in:
   A) more communication between buyers and sellers about the appropriate price.
   B) black market or underground transactions of the good.
   C) a more efficient allocation of the good to buyers.
   D) a surplus of the product.
4. (Figure: The Market for English Textbooks) Look at the figure The Market for English Textbooks. With a binding price floor at $90, the market outcome would be a _____ of _____ textbooks.
   A) shortage; 45
   B) shortage; 30
   C) surplus; 30
   D) surplus; 45

5. Producers may supply a good with inefficiently high quality if the government imposes:
   A) a binding price floor.
   B) a binding price ceiling.
   C) a price floor set below the equilibrium price.
   D) a price ceiling set above the equilibrium price.
6. (Figure: The Market for Hybrid Cars) Look at the figure The Market for Hybrid Cars. What area represents consumer surplus if there is a binding price floor at $P_1$?

A) $a + b + c$
B) $a$
C) $a + b + d$
D) $a + b$

7. The government decides to impose a price ceiling on a good because it thinks the market-determined price is too high. If it imposes the price ceiling above the equilibrium price:

A) consumers will purchase less of the good after the price ceiling is imposed.
B) neither producers nor consumers will change their behavior.
C) producers will respond to the higher price and therefore offer fewer units for sale.
D) consumers will respond to the higher price and therefore wish to purchase less of the good than at the equilibrium price.

8. Inefficient allocations of goods to consumers often result from:

A) producer surplus.
B) consumer surplus.
C) price ceilings.
D) equilibrium prices.
9. The persistent unwanted surplus that results from a price floor causes inefficiencies that include all of the following EXCEPT:
   A) the temptation to break the law by selling below the legal price.
   B) wasted resources.
   C) inefficiently low quality.
   D) inefficient allocation of sales among sellers.

10. An increase in producer surplus would most likely occur if:
   A) the market price of the good decreased.
   B) no changes occurred in the market.
   C) an effective price ceiling was imposed.
   D) an effective price floor was imposed.

Use the following to answer question 11:

**Figure: Supply and Demand in Agriculture**

11. (Figure: Supply and Demand in Agriculture) Look at the figure Supply and Demand in Agriculture. If a price floor at $P_4$ is set to help improve farm incomes and the government wants to assure farmers that their output will be purchased, the government must purchase an amount of output equal to:
   A) $Q_1 - Q_3$.
   B) $Q_3 - Q_0$.
   C) $Q_3 - Q_1$.
   D) $Q_2 - Q_1$. 
12. (Figure: Market I) Look at the figure Market I. If a price floor of $15 is imposed on this market and the government chooses to purchase the surplus, the government must buy _____ units of the good and spend a total amount of _____ on its purchase.
A) 9; $135
B) 5; $75
C) 9; $81
D) 10; $150

13. (Table: Quantity Supplied and Quantity Demanded) Look at the table Quantity Supplied and Quantity Demanded. If a price ceiling of $10 is imposed in this market:
A) the quantity supplied will be greater than the quantity demanded.
B) an equilibrium quantity will result.
C) excess supply equal to 25 units will result.
D) the quantity demanded will be greater than the quantity supplied.
Use the following to answer question 14:

**Figure: Price Control**

14. (Figure: Price Control) Look at the figure Price Control. One effective price ceiling would be the price indicated at point _____, and there would be a _____ equal to the difference between points _____.
   A) d; surplus; e and h
   B) b; surplus; f and e
   C) b; shortage; f and e
   D) d; shortage; i and h

Use the following to answer question 15:

**Figure: Rent Controls**
15. (Figure: Rent Controls) Look at the figure Rent Controls. Suppose that rent controls are imposed. If the government wanted a rent control ceiling to be effective immediately, what is one possible price to set?
   A) Rent$_1$
   B) Rent$_3$
   C) Rent$_2$
   D) Rent$_4$

Use the following to answer question 16:

**Figure: Price Controls**

16. (Figure: Price Controls) Look at the graph Price Controls. A price floor has been set at point b. The area of deadweight loss that results from this price floor is:
   A) fgi.
   B) egh.
   C) efg.
   D) ghi.
Answer Key

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