Multiple Choice Questions

Use the following Figure 3.1 to answer questions 1-4:

1. In Figure 3.1, if demand is considered perfectly elastic, then the appropriate figure is?
   A. Figure 1
   b. Figure 2
   c. Figure 3
   d. Figure 4
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2. In Figure 3.1, if demand is considered perfectly inelastic, then the appropriate figure is?
   a. Figure 1
   B. Figure 2
   c. Figure 3
   d. Figure 4

3. At point A of Figure 3 within Figure 3.1, demand is
   A. Elastic
   b. Inelastic
   c. Perfectly inelastic
   d. Perfectly elastic

4. At point B of Figure 4 within Figure 3.1, demand is
   a. Elastic
   B. Inelastic
   c. Perfectly inelastic
   d. Perfectly elastic

5. The elasticity of demand is related to the slope of the demand curve
   a. And only the slope of the demand curve
   B. But also the (price, quantity) position on the demand curve
   c. But also the slope of the supply curve
   d. And whether the good is normal or inferior

6. If the price of a good increases by 10% and the quantity demanded decreases by 5%, then at that price, the good is
   a. Elastic
   B. Inelastic
   c. Perfectly inelastic
   d. Perfectly elastic
7. If the price of a good increases by 5% and the quantity demanded decreases by 10%, then at that price, the good is
   A. Elastic
   b. Inelastic
c. Perfectly inelastic
d. Perfectly elastic

8. If the price of a good decreases by 10% and the quantity demanded increases by 5%, then at that price, the good is
   a. Elastic
   B. Inelastic
c. Perfectly inelastic
d. Perfectly elastic

9. If the price of a good decreases by 5% and the quantity demanded increases by 10%, then at that price, the good is
   A. Elastic
   b. Inelastic
c. Perfectly inelastic
d. Perfectly elastic

10. If the price of a good increases by 10% and the quantity demanded decreases by 10%, then at that price, the good is
    a. Elastic
    b. Inelastic
c. Perfectly inelastic
    D. Unit elastic

11. If the price of a good increases by 5% and the quantity demanded decreases by 5%, then at that price, the good is
    a. Elastic
    b. Inelastic
c. Perfectly inelastic
    D. Unit elastic
12. If the price of a good decreases by 10% and the quantity demanded increases by 10%, then at that price, the good is
   a. Elastic
   b. Inelastic
   c. Perfectly inelastic
   D. Unit elastic

13. If the price of a good decreases by 5% and the quantity demanded increases by 5%, then at that price, the good is
   a. Elastic
   b. Inelastic
   c. Perfectly inelastic
   D. Unit elastic

14. If the price of a good increases by 10% and the quantity demanded remains unchanged, then at that price, the good is
   a. Elastic
   b. Inelastic
   C. Perfectly inelastic
   d. Perfectly elastic

15. If the price of a good increases by 5% and the quantity demanded remains unchanged, then at that price, the good is
   a. Elastic
   b. Inelastic
   C. Perfectly inelastic
   d. Perfectly elastic

16. If the price of a good decreases by 10% and the quantity demanded remains unchanged, then at that price, the good is
   a. Elastic
   b. Inelastic
   C. Perfectly inelastic
   d. Perfectly elastic
17. If the price of a good decreases by 5% and the quantity demanded remains unchanged, then at that price, the good is
   a. Elastic
   b. Inelastic
   C. Perfectly inelastic
   d. Perfectly elastic

18. If the price of a good increases by one thousandth of 1% and the quantity demanded goes to zero, then at that price, the good is
   a. Non-responsive
   b. Inelastic
   c. Perfectly inelastic
   D. Perfectly elastic

19. Which of the following is true?
   A. On a linear demand curve, the higher the price the more elastic is demand
   b. On a linear demand curve, elasticity is constant
   c. At the same price demand is more elastic on the steeper demand curve
   d. None are true

20. Which of the following is true?
   a. On a linear demand curve, the higher the price the less elastic is demand
   b. On a linear demand curve, elasticity is constant
   c. At the same price demand is more elastic on the steeper demand curve
   D. None are true

21. Which of the following is true?
   a. On a linear demand curve, the higher the price the less elastic is demand
   b. On a linear demand curve, elasticity is constant
   C. At the same price demand is less elastic on the steeper demand curve
   d. All are true
22. Which of the following is true?
   a. On a linear demand curve, the higher the price the less elastic is demand
   B. On a linear demand curve, elasticity is not constant
   c. At the same price demand is more elastic on the steeper demand curve
   d. None are true

23. If the price rises and the total amount consumers spend on the good rises, then demand must be
   a. Elastic
   B. Inelastic
   c. Perfectly inelastic
   d. Perfectly elastic

24. If the price rises and the total amount consumers spend on the good falls, then demand must be
   a. Elastic
   B. Inelastic
   c. Perfectly inelastic
   d. Perfectly elastic

25. If the price rises and the total amount consumers spend on the good falls to zero, then demand must be
   a. Elastic
   b. Inelastic
   c. Perfectly inelastic
   D. Perfectly elastic

26. If the price falls and the total amount consumers spend on the good rises, then demand must be
   a. Elastic
   B. Inelastic
   c. Perfectly inelastic
   d. Perfectly elastic
27. If the price falls and the total amount consumers spend on the good falls, then demand must be
a. Elastic
B. Inelastic
C. Perfectly inelastic
d. Perfectly elastic

28. If the price rises and the total amount consumers spend on the good remains unchanged, then demand must be
a. Elastic
b. Inelastic
c. Perfectly inelastic
D. Unit elastic

29. If the price falls and the total amount consumers spend on the good remains unchanged, then demand must be
a. Elastic
b. Inelastic
c. Perfectly inelastic
D. Unit elastic

30. Suppose a firm can not figure out whether the demand for the good it sells is elastic or inelastic but discovers that every time it raises its price, its total revenue declines. Their
a. Demand is unit elastic
b. Demand is inelastic
C. Demand is elastic
d. Demand is perfectly inelastic

31. Suppose you observe that minor changes in supply seem to cause dramatic changes in price, you would conclude that
a. Demand is unit elastic
B. Demand is inelastic
c. Demand is elastic
d. Demand is perfectly inelastic
32. An increase in demand will increase prices most when supply is
   a. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   D. Perfectly inelastic

33. An increase in demand will increase prices least when supply is
   A. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   d. Perfectly inelastic

34. A decrease in demand will decrease prices most when supply is
   a. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   D. Perfectly inelastic

35. A decrease in demand will decrease prices least when supply is
   A. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   d. Perfectly inelastic

36. An increase in supply will decrease prices most when demand is
   a. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   D. Perfectly inelastic
37. An increase in supply will decrease prices least when demand is
   A. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   d. Perfectly inelastic

38. A decrease in supply will increase prices most when demand is
   a. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   D. Perfectly inelastic

39. A decrease in supply will increase prices least when demand is
   A. Elastic
   b. Unit elastic
   c. Inelastic (but not perfectly inelastic)
   d. Perfectly inelastic

40. A good like water has few substitutes and takes up little of our income to purchase, as a result its demand is likely to be
   a. Elastic
   b. Perfectly elastic
   C. Inelastic
   d. Unit elastic

41. Name brand apparel have many substitutes and can get very expensive, as a result their demand is likely to be
   A. Elastic
   b. Perfectly elastic
   c. Inelastic
   d. Unit elastic
42. The fact that the demand for eggs is inelastic is not surprising because
a. There are many substitutes for eggs as breakfast food
b. The demand for food is inelastic
c. The supply of eggs is inelastic
d. They are so inexpensive

43. Suppose a new law makes illegal the sale of a good that had been legal. This will
   a. Increase consumer surplus
   b. Increase producer surplus
   c. Decrease producer surplus
   d. Eliminate dead weight loss

44. Suppose a new law makes illegal the sale of a good that had been legal. This will
   a. Increase consumer surplus
   b. Increase producer surplus
   c. Decrease producer surplus
   d. Eliminate dead weight loss

45. A decrease in supply will always
   a. Increase producer surplus
   b. Decrease consumer surplus
   c. Decrease producer surplus
   d. Increase consumer surplus

46. A decrease in demand will always
   a. Increase producer surplus
   b. Decrease producer surplus and decrease consumer surplus
   c. Decrease consumer surplus and increase consumer surplus
   d. Increase consumer surplus
47. An increase in supply will always
   a. Increase producer surplus
   b. Decrease consumer surplus
   c. Decrease producer surplus
   **D.** Increase consumer surplus

48. An increase in demand will always
   a. Increase producer surplus
   **B.** Increase producer surplus and increase consumer surplus
   c. Decrease consumer surplus and increase consumer surplus
   d. Increase consumer surplus

49. When looking at the impact of a change in trade policy economists use consumer and producer surplus to look at the winners and losers. Free trade economists insist that
   a. No one loses
   b. Everyone loses
   **C.** There are winners and losers but that the gain to the winners is greater than the loss to the losers
   d. There are winners and losers but that the loss to the losers is greater than the gain to the winners

50. If supply and demand are both straight lines, then at equilibrium consumer and producer surplus are both
   a. Equal
   b. Shown as trapezoids
   c. Shown as squares
   **D.** Shown as triangles

51. Combined the consumer surplus and producer surplus at equilibrium is
   a. Lower than it would be at prices below equilibrium
   b. Lower than it would be at prices above equilibrium
   c. Typically negative
   **D.** As big as it can get
52. The elasticity of demand can change with
a. The number of close substitutes
b. The time available to shift to other alternatives
c. Neither A nor B
D. Both A and B

53. Economists suggest that a market can fail if
A. Production or consumption can harm an innocent third party
b. Consumers have to pay more than they want to
c. Producers get smaller profits than they desire
d. Governments dictate prices

54. Economists suggest that a market can fail if
a. Consumers have to pay more than they want to
B. No market for the product exists
c. Producers get smaller profits than they desire
d. Governments dictate prices

55. Economists suggest that a market can fail if
a. Consumers have to pay more than they want to
b. Producers get smaller profits than they desire
C. The good or service is such that consumers are unable to make well-informed decisions about its consumption
d. Governments dictate prices

56. Economists suggest that a market can fail if
a. Consumers have to pay more than they want to
b. Producers get smaller profits than they desire
c. Governments dictate prices
D. The buyer or seller exerts significant power such that they can dictate price
57. If a consumer can be easily prevented from consuming a good or service by a producer, then the good exhibits
   a. Rivalry
   B. Exclusivity
   c. An externality
   d. A moral loss

58. If one person's enjoyment of a good is reduced when another person consumes the good then the good exhibits
   A. Rivalry
   b. Exclusivity
   c. An externality
   d. A moral loss

59. Suppose a long stretch of beach with many possible public and private entrances is such that it is impossible to control access and, as a result, gets very crowded on summer days. Which recognized characteristic of goods holds
   A. Rivalry
   b. Exclusivity
   c. Lucidity
   d. Morality

60. Suppose a long stretch of beach with many possible public and private entrances is such that it is impossible to control access and, as a result, gets very crowded on summer days. Which recognized characteristic of goods does not hold
   a. Rivalry
   B. Exclusivity
   c. Lucidity
   d. Morality
61. Suppose a satellite radio signal can be received by any number of devices without the quality being diminished but that the devices are only activated when consumers pay a subscription. Which recognized characteristic of goods holds
a. Rivalry
b. Exclusivity
c. Lucidity
d. Morality

62. Suppose a satellite radio signal can be received by any number of devices without the quality being diminished but that the devices are only activated when consumers pay a subscription. Which recognized characteristic of goods does not hold
A. Rivalry
b. Exclusivity
c. Lucidity
d. Morality

63. Suppose a dyke is constructed in a river city to prevent floods from affecting the city. In this way all occupants are made equally safe regardless of whether they pay taxes. Which characteristics of goods hold or do not hold.
a. Rivalry holds but exclusivity does not
b. Both rivalry and exclusivity hold
c. Exclusivity holds but rivalry does not
D. Neither rivalry nor exclusivity hold

64. A pure private good is such that
a. Rivalry holds but exclusivity does not
b. Both rivalry and exclusivity hold
c. Exclusivity holds but rivalry does not
d. Neither rivalry nor exclusivity hold
65. A price excludable public good is such that  
a. Rivalry holds but exclusivity does not  
b. Both rivalry and exclusivity hold  
C. Exclusivity holds but rivalry does not  
d. Neither rivalry nor exclusivity hold

66. A congestible public good is such that  
A. Rivalry holds but exclusivity does not  
b. Both rivalry and exclusivity hold  
c. Exclusivity holds but rivalry does not  
d. Neither rivalry nor exclusivity hold

67. A pure public good is such that  
a. Rivalry holds but exclusivity does not  
b. Both rivalry and exclusivity hold  
c. Exclusivity holds but rivalry does not  
D. Neither rivalry nor exclusivity hold

68. When a satellite television company gains a subscriber there is no impact on existing subscribers. That is there is no rivalry in the consumption for their service. This is an example of a  
a. Purely private good  
b. Congestible public good  
c. Purely public good  
D. Excludable public good

69. Policy makers have considered putting computer chips in cars that would allow tax collectors to charge people based on how often they drive during rush hours. These policy makers are dealing with the fact that public roads are  
a. Purely private good  
B. Congestible public good  
c. Purely public good  
d. Excludable public good
70. Consumer surplus is defined as
A. The value that the consumer places on a good over the amount they pay for it
b. The money that the producer gets from a good over the amount they are willing to sell it for
c. When quantity supplied is greater than quantity demanded
d. When quantity demanded is greater than quantity supplied

71. Producer surplus is defined as
a. The value that the consumer places on a good over the amount they pay for it
B. The money that the producer gets from a good over the amount they are willing to sell it for
c. When quantity supplied is greater than quantity demanded
d. When quantity demanded is greater than quantity supplied

72. Dead Weight Loss is defined as
A. The loss to society that results from production being too high or too low
b. The loss to society that results from incomes being too high or too low
c. The loss to society that results from items costing more than some can afford
d. None of these

Use the following Figure 3.2 to answer questions 73-78:

Figure 3.2
73. In Figure 3.2, what is the value to the consumer?
   a. $0PCQ^*$  
   **B.** $0ACQ^*$  
   c. $P^*AC$  
   d. $BP^*C$

74. In Figure 3.2, what is the variable cost to the producer?
   a. $0PCQ^*$  
   **B.** $0BCQ^*$  
   c. $P^*AC$  
   d. $BP^*C$

75. In Figure 3.2, what is the money the consumer pays the producer?
   **A.** $0PCQ^*$  
   b. $0ACQ^*$  
   c. $P^*AC$  
   d. $BP^*C$

76. In Figure 3.2, what is the consumer surplus?
   a. $0PCQ^*$  
   b. $0ACQ^*$  
   **C.** $P^*AC$  
   d. $BP^*C$

77. In Figure 3.2, what is the producer surplus?
   a. $0PCQ^*$  
   b. $0ACQ^*$  
   c. $P^*AC$  
   **D.** $BP^*C$
78. Without a belief that the market has failed, which of the following will result in dead weight loss?  
a. A price below equilibrium  
b. A price at equilibrium  
c. A price above equilibrium  
D. Either A or C

79. If a given reduction in market demand causes the market equilibrium price to decrease by a very large percentage while equilibrium quantity purchased decreases by a very small percentage,  
A. Market supply is inelastic (but not perfectly inelastic,)  
b. Market supply is elastic (but not perfectly elastic.)  
c. Market supply is perfectly inelastic  
d. Market supply is perfectly elastic

80. The fact that the demand for luxury cars is elastic is not surprising because  
a. The supply of luxury cars is inelastic  
b. There are few substitutes for true luxury cars  
c. Luxury cars are primarily a "status symbol"  
D. Luxury cars are relatively expensive

81. The difference between the value of a product enjoyed by consumers and the total variable costs incurred by producers in a competitive market for that product is  
a. Producer surplus  
b. Consumer surplus  
C. The sum of consumer surplus and producer surplus  
d. The difference between consumer surplus and producer surplus

82. The net gain to society from the operation of a competitive market in equilibrium is  
a. Consumer surplus only  
b. Producer surplus only  
C. The sum of consumer surplus and producer surplus  
d. The profits of the producers
83. The net cost to society from prohibiting the operation of a competitive market in equilibrium is
a. Lost consumer surplus only
b. Lost producer surplus only
c. Lost producer profits only
D. A deadweight loss