

Price Theory Palooza

- 1. Refugees fleeing an oppressive foreign government arrive in New York City, looking for a new place to live. With respect to housing in New York City, this would cause:**
 - a. An increase in supply
 - b. An increase in quantity supplied
 - c. A decrease in supply
 - d. A decrease in quantity supplied
 - e. None of the above
- 2. Which of the following could change the quantity demanded for a good?**
 - a. Change in income
 - b. Change in price
 - c. Change in price of substitute goods
 - d. Change in number of consumers
 - e. All the above
- 3. The government sets a binding price floor on oranges. *Ceteris paribus*, this causes:**
 - a. An increase in the average quality of oranges exchanged, but a decrease in quantity
 - b. A decrease in the average quality of oranges exchanged and a decrease in quantity
 - c. A decrease in the quantity of oranges exchanged, but no change in quality
 - d. An increase in the quantity of oranges exchanged, but no change in quality
- 4. The government bans all production, consumption, and sale of apples, but a black market in apples emerges. Select the most likely black market outcome:**
 - a. An increase in the proportion of “regular” to “jumbo” apples exchanged
 - b. An increase in the quantity of all apple sizes exchanged
 - c. An increase in the proportion of “jumbo” to “regular” apples exchanged
 - d. No change in the proportion of “regular” to “jumbo” apples exchanged
- 5. *Ceteris paribus*, a price floor on labor:**
 - a. Decreases the cost of discrimination according to seller preference
 - b. Increases the cost of discrimination according to seller preference
 - c. Decreases the cost of discrimination according to buyer preference
 - d. Increases the cost of discrimination according to buyer preference

- 6. Which of the following could increase the quantity supplied of a good? Select all that apply:**
- a. An increase in the price of the good
 - b. A decrease in the price of a good
 - c. An increase in the number of sellers
 - d. A decrease in the number of sellers
 - e. Better technology
 - f. A decrease in the relevant factor prices
- 7. Which of the following could decrease the supply of a good? Select all that apply:**
- a. A decrease in the price of the good
 - b. A decrease in the price of a good that is a complement in production
 - c. A decrease in the price of a good that is a substitute in production
 - d. A decrease in the number of sellers
- 8. Which of the following could increase the supply of a good? Select all that apply:**
- a. A decrease in the relevant factor prices
 - b. A decrease in the price of a good that is a complement in production
 - c. A decrease in the price of a good that is a substitute in production
 - d. An increase in the price of a good that is a substitute in production
- 9. Price ceilings alter the composition of buyers by:**
- a. Increasing the share of high opportunity cost of time buyers
 - b. Increasing the share of low opportunity cost of time buyers
 - c. Increasing the total number of exchanges
- 10. If supply shifts right by a greater distance than demand shifts left, relative to the old equilibrium price and quantity, the new:**
- a. Equilibrium price is higher and equilibrium quantity is lower
 - b. Equilibrium price is lower and equilibrium quantity is greater
 - c. Equilibrium price is higher and equilibrium quantity is greater
 - d. Equilibrium price is lower and equilibrium quantity is lower
- 11. Gasoline sellers expect their number to decrease next year. In the present, this belief will:**
- a. Shift the supply curve to the right, increasing the price
 - b. Shift the demand curve to the right, increasing the price
 - c. Shift the supply curve to the left, increasing the price
 - d. Shift the demand curve to the left, increasing the price
 - e. None of the above

- 12. An unseasonably warm summer coupled with an increase in the price of factors of production used in ice cream production have both acted to alter equilibrium price and quantity in the market for ice cream. What can we say about the new equilibrium price and quantity?**
- Equilibrium price and quantity increase
 - Equilibrium price and quantity decrease
 - Equilibrium price change is ambiguous, while equilibrium quantity increases
 - Equilibrium price change is ambiguous, while equilibrium quantity decreases
 - Equilibrium quantity change is ambiguous, while equilibrium price increases
 - Equilibrium quantity change is ambiguous, while equilibrium price decreases
- 13. In the absence of a “target level” of income held by wage-earners, an income tax will tend to:**
- Increase the supply of labor; increase the average wage
 - Increase the supply of labor; decrease the average wage
 - Decrease the supply of labor; increase the average wage
 - Decrease the supply of labor; decrease the average wage
- 14. New York City requires all taxi drivers own a medallion to legally operate. Suppose the policy was first enacted twenty years ago, when the municipal government issued 1,000 medallions, dramatically increasing the price of taxi rides. Make the additional (and admittedly unrealistic) assumption that there are no government entry barriers to becoming a bakery owner in New York City. Given this information, which is most likely true:**
- New taxi drivers earn positive economic profits; new bakery owners earn interest
 - New bakery owners earn positive economic profits; new taxi drivers earn interest
 - New bakery owners and new taxi cab drivers earn positive economic profits
 - Neither new taxi cab drivers, nor new bakery owners earn positive economic profits
- 15. The persistence of taxi cab medallions is best explained by:**
- Concentrated benefits; dispersed costs
 - Concentrated costs; dispersed benefits
 - Concentrated benefits; concentrated costs
 - Dispersed benefits; dispersed costs
- 16. If sellers believe the price of the good they’re selling will be lower in six months, this tends to:**
- Decrease the price of the good in the present because the supply curve shifts right
 - Increase the price of the good in the present because the supply curve shifts right
 - Decrease the price of the good in the present because the demand curve shifts left
 - Increase the price of the good in the present because the demand curve shifts left

- 17. A rightward shift of the demand curve for clocks can be most reasonably explained by saying that:**
- Consumer incomes have declined; they want to buy fewer clocks at each price
 - The price of clocks has increased; consumers want to purchase fewer of them
 - A price of a substitute for clocks recently saw a dramatic increase in its price
 - The price of clocks has declined; consumers want to purchase more of them
 - The supply of clocks has increased because clock-making technology improved
- 18. Between two prices, you determine that the price elasticity of demand for a Wilson tennis racket is equal to -0.7. What should you conclude:**
- The percentage change in price is greater than the percentage change in quantity
 - The percentage change in quantity is greater than the percentage change in price
 - The percentage change in quantity is equal to the percentage change in price
 - More information is needed to make a statement about how price and quantity relate
- 19. The severe drought in peanut-growing states in late 1980 wreaked havoc on the peanut crop. Select the most likely outcome:**
- A peanut butter shortage
 - A higher price for peanut butter because the supply curve shifted left
 - A lower price for peanut butter because the supply curve shifted left
 - A higher price for peanut butter because the demand curve shifted right
 - None of the above
- 20. A local businessman points out that, as the price of hotdogs has risen, sales have increased tremendously. He concludes that the law of demand fails to hold. Which of the following best explains the data observed by the businessman?**
- The demand curve shifted left during the period in question
 - The demand curve remained stable during the period in question
 - The demand curve shifted right during the period in question
 - The supply curve shifted right during the period in question
 - The supply curve shifted left during the period in question
- 21. Barbers' physical marginal productivity has not risen over the last century, but their real wages have. Select the best explanation for this phenomenon:**
- Monetary inflation has caused all prices to rise over the last century
 - Being a barber has a higher opportunity cost now
 - Being a barber has a lower opportunity cost now
 - It's now less costly for people to cut their own hair
 - Barber unions originating a century ago and restricting the supply of barbers

22. What is the most persuasive explanation for why sellers of illicit drugs (i.e. cocaine) engage in violence, but that sellers of licit drugs (i.e. alcohol) generally do not?

- a. Licit drugs are less likely to incite violence when consumed
- b. Licit drugs are more likely to incite violence when consumed
- c. The marginal cost of committing violence is higher for sellers of illicit drugs
- d. The marginal cost of committing violence is lower for sellers of illicit drugs

23. Price elasticity of demand is:

- a. The same as the slope of the demand curve
- b. The reciprocal of the slope of the demand curve
- c. Constant along a linear demand curve
- d. Is non-constant along a linear demand curve

24. Mechanics often charge women a higher price than men for the same job. Select the best explanation:

- a. Women have more substitutes for mechanics and thus more elastic demand
- b. Women have fewer substitutes for mechanics and thus more inelastic demand
- c. Women have more substitutes for mechanics and thus more inelastic demand
- d. Women have fewer substitutes for mechanics and thus more elastic demand

25. You're a best-selling author. Your agent calls you to tell you he's increasing the price of your book by 150%. In which of the following scenarios would you be the most pleased:

- a. When the price elasticity of demand for the relevant region is -0.96
- b. When the price elasticity of demand for the relevant region is -1.1
- c. When the price elasticity of demand for the relevant region is -1.0
- d. When the price elasticity of demand for the relevant region is -0.99
- e. When the price elasticity of demand for the relevant region is -1.3

26. An ounce of gold is trading for 10 ounces of silver when the government declares that an ounce of gold will trade for an ounce of silver, while banning all other monies.

Select the most likely outcome:

- a. People begin hoarding silver and increase spending of gold
- b. People begin hoarding gold and increase spending of silver
- c. People begin hoarding both monies and decrease spending
- d. None of the above

27. Someone attempting to maximize physical output should:

- a. Stop adding units of the variable input before they reach diminishing marginal returns
- b. Stop adding units of the variable input while in the region of increasing marginal returns
- c. Keep adding units of the variable input even while in the region of negative marginal returns
- d. None of the above

28. Suppose that a new study reveals that beef is a healthier meat than previously believed. What happens in the market for cow hides?

- a. The supply of cow hides increases
- b. The quantity supplied of cow hides increases
- c. The demand for cow hides increases
- d. The quantity supplied of cow hides decreases
- e. The supply of cow hides decreases

29. An increase in time preference tends to:

- a. Decrease wages by reducing the marginal physical product of workers
- b. Decrease wages by increasing the prevailing interest rate
- c. Increase wages by increasing the marginal physical product of workers
- d. Increase wages by increasing the prevailing interest rate
- e. Increase wages by increasing the price of the final product being produced

30. Suppose that when the demand for corn falls, one long-run consequence is a lower price for wheat. This information suggests corn and wheat are:

- a. Substitutes in consumption
- b. Substitutes in production
- c. Neither

31. Suppose there are three companies, each of which require land to produce a good. Company A can build its factory on any land. Company B requires a specific type of farmland found only in Idaho. Company C can use any type of farmland found in the United States. Which company is most likely to lobby for government subsidies?

- a. Company A
- b. Company B
- c. Company C

32. Industry A is comprised of 500 hundred firms each of which supplies roughly $1/500^{\text{th}}$ of the total market share of 100,000 consumers. Industry B is comprised of 10 firms, each of which supplies roughly $1/10^{\text{th}}$ of the total market share of 1 million consumers. Both industries face competition from foreign producers. Which is more likely to successfully lobby for tariff protection?
- Industry A
 - Industry B
33. *Ceteris paribus*, which group is likely to have more inelastic demand?
- Tourists
 - Residents
34. A liquor-retailing license in Pennsylvania was sold for \$200,000. The seller was the person who initially bought the license from the state government at a price of \$2,000. Select the correct description:
- The buyer of the license earns a monopoly profit
 - The seller of the license earns a monopoly profit
 - Both the buyer and the seller earn a monopoly profit
 - Neither the seller nor the buyer earns a monopoly profit
35. For a price-searching firm (i.e. all real-world firms), after the first unit, marginal revenue is:
- Below price
 - Above price
 - Equal to price
 - Either above or below, but never equal to price
36. Tickets for matinee performances are usually cheaper than evening performances of the same show. Select the best explanation:
- Matinee-goers have more substitutes and thus more inelastic demand
 - Matinee-goers have fewer substitutes and thus more elastic demand
 - Matinee-goers have more substitutes and thus more elastic demand
 - Matinee-goers have fewer substitutes and thus more inelastic demand
37. A firm subjected to “rate-of-return” regulation has an incentive to:
- Increase its average costs
 - Decrease its average costs

- 38. Doctors frequently charge a higher price to wealthy customers than to poor customers. The best explanation is that:**
- The poor have more inelastic demand
 - The rich have unit elastic demand
 - The rich have more inelastic demand
 - Doctors tend to feel sympathy for the plight of the poor
- 39. For a cross-country trip, a rich person is more likely to take a plane than the bus relative to a poor person because:**
- Taking the plane tends to be more expensive
 - The rich person tends to have a higher opportunity cost of time
 - The poor person tends to have a higher opportunity cost of time
- 40. A binding price floor tends to generate a larger:**
- Surplus in the long-run because demand and supply are more elastic in the long-run
 - Surplus in the long-run because demand is more elastic in the long-run
 - Surplus in the short-run because it is costly for demanders to adjust quickly
 - Shortage in the long-run because it is costly for demanders to adjust quickly
 - Shortage in the short-run because it is costly for demanders to adjust quickly
- 41. A profit-maximizing price-searcher with fixed costs equaling \$100 and marginal costs equaling \$0 should set the price where:**
- Marginal revenue equals \$100
 - Marginal revenue is above \$0
 - Marginal revenue equals \$0
 - Marginal revenue equals the price
 - Marginal revenue is negative
 - None of the above
- 42. Two goods are _____ if an increase in the price of one generates an increase in the price of the other. Select every possibility:**
- Substitutes in consumption
 - Substitutions in production
 - Complements in consumption
 - Complements in production

- 43. Select the good for which sellers are least likely to attempt price discrimination:**
- a. Apples
 - b. Higher education
 - c. Elective surgeries
 - d. Repair work on a motor vehicle
 - e. Admission to a movie theater
- 44. Suppose that the factors of production used to produce cigars include: land which can grow tobacco or a host of other products, laborers, and a specific capital good, the only use for which is cigar production. Further suppose that the government bans domestic cigar consumption. Which factor of production is likely to experience the greatest price change because of this new policy?**
- a. Land
 - b. Labor
 - c. Capital good
- 45. Which exhibits an externality relationship?**
- a. Jim walking into a crowded classroom after having not showered for a week
 - b. Jim walking into a crowded classroom wearing a shirt that everyone in the room finds beautiful
 - c. A soda manufacturer using corn syrup, which causes so many dental visits that the price of dental services increases
 - d. A and B
 - e. A, B, and C
- 46. In the case of two parties engaged in conflict over some good, the condition of “zero transaction costs” will ensure that _____ is/are independent of the initial distribution of property rights:**
- a. The price at which the good is exchanged
 - b. The utility of both parties
 - c. The wealth of both parties
 - d. Resource allocation
 - e. All the above
 - f. None of the above

47. Which of the following could generate price inflation?

- a. An increase in the supply of money
- b. A decrease in the demand for money
- c. An increase in the price of a widely-consumed good (such as oil)
- d. A and B
- e. A, B, and C
- f. None of the above

48. The discipline of repeated dealings becomes _____ effective the _____ the time preference of the sellers:

- a. More; greater
- b. More; lower
- c. Less; lower

49. A decrease in interest rates tends to _____ the _____ and _____ the _____

- a. Benefit; young; harm; old
- b. Benefit; old; harm; young

50. An effective signal is:

- a. Equally costly for all groups
- b. Costlier for high-quality groups compared to low-quality groups
- c. Costlier for low-quality groups as compared to high-quality groups

True/False Uncertain:

1. *Ceteris paribus*, discrimination according to arbitrary characteristics (i.e. those unrelated to productivity) is more likely to be practiced in hiring for “c-suite” positions than in hiring custodians:
 - a. True
 - b. False
 - c. Uncertain

2. The profit-maximizing, price-searching firm will raise its price if it is currently pricing in the inelastic region of its demand curve:
 - a. True
 - b. False
 - c. Uncertain

3. *Ceteris paribus*, when the demand for cattle hides falls, the price of beef tends to eventually fall as a result:
 - a. True
 - b. False
 - c. Uncertain

4. The market-clearing price of corn is \$5/bushel. At this price, farmers earn zero economic profits (they only earn the going interest rate). Suppose farmers lobby government to receive subsidies equal to \$1/bushel, effectively raising the price they receive to \$6/bushel. True/False/Uncertain: The subsidy permits farmers to earn economic profits of \$1/bushel in perpetuity.
 - a. True
 - b. False
 - c. Uncertain

5. *Ceteris paribus*, an economic good with more known uses tends to have more elastic demand than a good with fewer known uses:
 - a. True
 - b. False
 - c. Uncertain

6. Suppose you won the lottery today, which will pay you \$500,000 annually for 10 years. True/False/Uncertain: As of today, you are \$5 million richer.
 - a. True
 - b. False
 - c. Uncertain

7. **If the price of apples increases, individuals' tastes will shift from apples and to substitute fruits:**
- True
 - False
 - Uncertain
8. **We should expect top executives in volatile industries to be paid more than top executives in relatively stable industries:**
- True
 - False
 - Uncertain
9. **Profit-maximizing producers attempt to minimize total cost:**
- True
 - False
 - Uncertain
10. **The proportion of one's budget spent on an item is inversely related to the elasticity of demand for the item:**
- True
 - False
 - Uncertain
11. **Suppose government uses a magical device to instantly purify all the air surrounding Shanghai. True/False/Uncertain: Using the device tends to redistribute wealth from land renters to land owners:**
- True
 - False
 - Uncertain
12. **An income tax reduces the quantity of hours worked:**
- True
 - False
 - Uncertain
13. **The size of transaction costs is positively correlated with the benefits of autarky:**
- True
 - False
 - Uncertain

14. If demand for a product increases, its price will rise. If its price rises, then the demand will fall, causing the price to fall once again:
- True
 - False
 - Uncertain
15. Prohibition of the production, sale, and consumption of an item may permit black market producers of that item to earn pecuniary profits in perpetuity:
- True
 - False
 - Uncertain
16. Farmers tend to benefit from harvesting a bumper crop when the demand for their product is inelastic below the current equilibrium price:
- True
 - False
 - Uncertain
17. Allocation by price and allocation by waiting tend to be equally efficient ways of allocating economic goods:
- True
 - False
 - Uncertain
18. If the supply of apples increases, the price will fall, which will cause demand to increase, which will cause the price to increase:
- True
 - False
 - Uncertain
19. Assume the US Postal Service is attempting to maximize profits.
True/False/Uncertain: Since the USPS has a monopoly on first-class mail, it can charge whatever price it wants:
- True
 - False
 - Uncertain

20. Profit-maximizing producers attempt to maximize total revenue:

- a. True
- b. False
- c. Uncertain

21. When the marginal product of labor is increasing, the average product of labor is also increasing:

- a. True
- b. False
- c. Uncertain

22. Holding the probability of apprehension constant, a punishment of ten years in jail deters twice as effectively as a punishment of five years in jail:

- a. True
- b. False
- c. Uncertain

23. A 10% probability of being apprehended, coupled with a \$1,000 fine, is an equivalent deterrent to a 50% probability of being apprehended, coupled with a \$200 fine:

- a. True
- b. False
- c. Uncertain

24. *Ceteris paribus*, the benefits of a buyer engaging in “price-searching” are positively related to the proportion of one’s budget spent on the good:

- a. True
- b. False
- c. Uncertain

25. A relatively non-perishable crop will tend to experience a larger decline in its price around harvest time than a relatively perishable crop:

- a. True
- b. False
- c. Uncertain

26. *Ceteris paribus*, when supply shifts, the resultant price change will be greater for a good with fewer substitutes:

- a. True
- b. False
- c. Uncertain

27. *Ceteris paribus*, a resale price maintenance agreement by which a manufacturer enforces a minimum price for retailers will tend to increase the quality of the store's environment in which the item is sold:
- True
 - False
 - Uncertain
28. If a tree farm permits its trees to grow to older ages before harvesting and selling them, one possible explanation is that interest rates have risen:
- True
 - False
 - Uncertain
29. A profit-maximizing firm attempts to maximize average profit:
- True
 - False
 - Uncertain
30. Patents tend to permit inventors to earn long-run economic profits when they wouldn't otherwise:
- True
 - False
 - Uncertain
31. Nepotism is more likely to be observed in Little League than in the MLB:
- True
 - False
 - Uncertain
32. Relative to a legal market, prohibition tends to raise the marginal revenue associated with acquiring another customer:
- True
 - False
 - Uncertain
33. Firms tend to reduce product durability so that consumers will have to buy more frequently:
- True
 - False
 - Uncertain

34. Effective criminalization (i.e. no black market) of used-book markets would tend to lower authors' per-book profit:
- True
 - False
 - Uncertain
35. An inelastic supply of inputs raises the expected marginal benefit of firms' attempting to engage in so-called "collusion":
- True
 - False
 - Uncertain
36. *Ceteris paribus*, a producer who owns his cement mixing truck tends to be at a cost advantage relative to his rival who rents his cement mixing truck:
- True
 - False
 - Uncertain
37. A legal maximum on the number of weekly hours an employee may work will lower the total number of weekly hours worked in the economy:
- True
 - False
 - Uncertain
38. A new law in Pennsylvania preventing businesses from leaving to locate elsewhere may reduce the number of businesses in the state:
- True
 - False
 - Uncertain
39. Diminishing returns to a variable factor are consistent with increasing returns to scale:
- True
 - False
 - Uncertain
40. Diamonds are luxury items which are highly expensive, so other things equal, diamond sellers tend to be wealthier than t-shirt sellers:
- True
 - False
 - Uncertain

41. Raising the income tax increases government's net revenue:
- True
 - False
 - Uncertain
42. A law which prevents landlords from evicting nonpaying tenants tends to help the poor at the expense of the rich:
- True
 - False
 - Uncertain
43. A switch from a monetary economy to a barter economy would tend to hurt toilet paper producers more than piano producers:
- True
 - False
 - Uncertain
44. For a good where supply is perfectly inelastic, an increase in demand and the resultant price increase do not elicit an increase in quantity supplied.
True/False/Uncertain: Thus, permitting the price to increase serves no social function.
- True
 - False
 - Uncertain
45. The introduction of worker's compensation (i.e. employers compensating employees for on-the-job injuries) tended to raise the wages of workers in safe professions relative to dangerous ones:
- True
 - False
 - Uncertain
46. *Ceteris paribus*, the higher the opportunity cost of time among buyers, the greater the dispersion of prices:
- True
 - False
 - Uncertain

47. If a person is willing to buy Gamble A, which offers \$1 million with 1% odds, then they'll be willing to pay the same amount for Gamble B, which offers \$20,000 with 50% odds.
- True
 - False
 - Uncertain
48. Price parity between similar firms offering similar products indicates collusion:
- True
 - False
 - Uncertain
49. The price elasticity of labor supply is likely greater than the price elasticity of the supply of cashiers:
- True
 - False
 - Uncertain
50. The price elasticity of demand for apples is greater than that for fruit:
- True
 - False
 - Uncertain