

Price Theory Palooza

- 1. A massive hurricane destroys half the world's lemon crop. With respect to lemons, this would cause:**
 - a. An increase in supply
 - b. An increase in quantity supplied
 - c. An increase in demand
 - d. A decrease in quantity demanded
 - e. A decrease in demand
 - f. None of the above
- 2. Which of the following could change the demand 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
 - f. All but b.
- 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 places an *ad valorem* tax of 10% on all apples. Select the most likely outcome for the new equilibrium:**
 - a. An increase in the proportion of "regular" to "premium" apples exchanged
 - b. An increase in the quantity of all apple qualities exchanged
 - c. An increase in the proportion of "premium" to "regular" apples exchanged
 - d. No change in the proportion of "regular" to "premium" apples exchanged
- 5. The government places a unit tax of fifty cents on all apples. Select the most likely outcome for the new equilibrium:**
 - a. An increase in the proportion of "regular" to "jumbo" apples exchanged
 - b. An increase in the quantity of all apple qualities exchanged
 - c. An increase in the proportion of "premium" to "regular" apples exchanged
 - d. No change in the proportion of "regular" to "premium" apples exchanged
- 6. *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
- 7. 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
- 8. 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
 - d. All of the above
- 9. 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
- 10. 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
- 11. 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?**
- a. Equilibrium price and quantity increase
 - b. Equilibrium price and quantity decrease
 - c. Equilibrium price change is ambiguous, while equilibrium quantity increases
 - d. Equilibrium price change is ambiguous, while equilibrium quantity decreases
 - e. Equilibrium quantity change is ambiguous, while equilibrium price increases

f. Equilibrium quantity change is ambiguous, while equilibrium price decreases

12. In the absence of a “target level” of income held by wage-earners, an income tax will tend to:

- a. Increase the supply of labor; increase the average wage
- b. Increase the supply of labor; decrease the average wage
- c. Decrease the supply of labor; increase the average wage
- d. Decrease the supply of labor; decrease the average wage

13. 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:

- a. New taxi drivers earn positive economic profits; new bakery owners earn interest
- b. New bakery owners earn positive economic profits; new taxi drivers earn interest
- c. New bakery owners and new taxicab drivers earn positive economic profits
- d. Neither new taxicab drivers, nor new bakery owners earn positive economic profits

14. The persistence of taxi-cab medallions is best explained by:

- a. Concentrated benefits; dispersed costs
- b. Concentrated costs; dispersed benefits
- c. Concentrated benefits; concentrated costs
- d. Dispersed benefits; dispersed costs

15. If sellers believe the price of their good will be lower in six months, this tends to:

- a. Decrease the price of the good in the present because the supply curve shifts right
- b. Increase the price of the good in the present because the supply curve shifts right
- c. Decrease the price of the good in the present because the demand curve shifts left
- d. Increase the price of the good in the present because the demand curve shifts left

16. A rightward shift of the demand curve for clocks can be most reasonably explained by saying that:

- a. Consumer incomes have declined; they want to buy fewer clocks at each price
- b. The price of clocks has increased; consumers want to purchase fewer of them
- c. A price of a substitute for clocks recently saw a dramatic increase in its price
- d. The price of clocks has declined; consumers want to purchase more of them
- e. The supply of clocks has increased because clock-making technology improved

- 17. Between two prices, you determine that the price elasticity of demand for a Wilson tennis racket was equal to -0.7. What should you conclude:**
- The percentage change in price was greater than the percentage change in quantity
 - The percentage change in quantity was greater than the percentage change in price
 - The percentage change in quantity was equal to the percentage change in price
 - More information is needed to make a statement about how price and quantity relate
- 18. 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
- 19. 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
- 20. 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, which has caused the supply of barbers to shift to the left
 - Being a barber has a higher opportunity cost now, which has caused the supply of barbers to shift to the right
 - Being a barber has a lower opportunity cost now, which has caused the supply of barbers to shift to the right
 - It's now less costly for people to cut their own hair
- 21. To an economist, which 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?**
- Licit drugs are less likely to incite violence when consumed
 - Licit drugs are more likely to incite violence when consumed

- c. The marginal cost of committing violence is higher for sellers of illicit drugs, and the marginal benefit is lower
- d. The marginal cost of committing violence is lower for sellers of illicit drugs, and the marginal benefit is higher
- e. Both the marginal cost and marginal benefit of committing violence tend to be lower

22. 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

23. 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

24. 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

25. For this question, imagine a "closed economy" that is experiencing no trade or capital in/outflows. In this country, 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

26. To maximize physical output, you 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

27. Suppose that a new study reveals that beef is a much 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

28. 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

29. 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

30. An ad valorem tax is imposed on substitute goods of different qualities. The tax:

- a. Increases the proportion of the high-quality good consumed, while decreasing overall consumption of both goods
- b. Increases the proportion of the low-quality good consumed, while decreasing overall consumption of both goods
- c. Increases the proportion of the high-quality good consumed, while increasing overall consumption of both goods
- d. Has no effect on the proportions of the goods consumed, *ceteris paribus*

- 31. Suppose the market for corn is in equilibrium before farmers experience unseasonably frequent rain, which yields a bumper crop for all farmers. Farmers hope that, below the prior equilibrium price, demand for corn is:**
- Elastic
 - Inelastic
 - Unit elastic
- 32. Liquor-retailing store A purchases a license from the Pennsylvania state government for \$2,000 and eventually sells it to liquor-retailing store B for \$200,000. Without the license, no one can legally sell liquor (i.e. it is a monopoly privilege). Which of the following is true:**
- A earns a monopoly profit
 - B earns a monopoly profit
 - Both A and B earn a monopoly profit
 - Neither A, nor B earns a monopoly profit
- 33. 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
- 34. A firm is price-discriminating. Suppose all the units of the good have already been produced. In Market A, the price is above the unit elastic portion of the demand curve, and in Market B, the price is below the unit elastic portion of the demand curve. The firm should:**
- Expand sales and lower price in market B, while restricting sales and raising price in market A
 - Expand sales and lower price in market A, while restricting sales and raising price in market B
 - Expand sales and lower price in both markets
 - Restrict sales and raise price in both markets
- 35. A firm subjected to “rate-of-return” regulation has an incentive to:**
- Increase its average costs
 - Decrease its average costs
- 36. Doctors frequently charge a higher price to wealthy customers than to poor customers. A price discrimination explanation would say:**
- The poor have more inelastic demand

- b. The rich have unit elastic demand
- c. The rich tend to take more time or are more likely to sue
- d. The rich have more inelastic demand
- e. Doctors tend to feel sympathy for the plight of the poor

37. Doctors frequently charge a higher price to wealthy customers than to poor customers. A non-price-discrimination explanation would say:

- a. The poor have more inelastic demand
- b. The rich have unit elastic demand
- c. The rich tend to take more time or are more likely to sue
- d. The rich have more inelastic demand
- e. Doctors tend to feel sympathy for the plight of the poor

38. Suppose that consumers view low-grade oranges as a substitute for high-grade oranges. The government imposes a uniform per unit excise tax on all oranges. We would expect to see:

- a. An increase in the proportion of low to high quality oranges consumed
- b. A decrease in the proportion of low to high quality oranges consumed
- c. An increase in the number of oranges consumed, but no change in the proportion of low to high quality oranges
- d. A decrease in the number of oranges consumed, but no change in the proportion of low to high quality oranges

39. A binding price floor tends to generate a larger:

- a. Surplus in the long-run because demand and supply are more elastic in the long-run
- b. Surplus in the long-run because demand is more elastic in the long-run
- c. Surplus in the short-run because it is costly for demanders to adjust quickly
- d. Shortage in the long-run because it is costly for demanders to adjust quickly
- e. Shortage in the short-run because it is costly for demanders to adjust quickly

40. A profit-maximizing price-searcher with fixed costs equaling \$100 and marginal costs equaling \$0 zero should set the price where:

- a. Marginal revenue equals \$100
- b. Marginal revenue is above \$0
- c. Marginal revenue equals \$0
- d. Marginal revenue equals the price
- e. Marginal revenue is negative
- f. None of the above

- 41. If the prices of two goods are directly related, they are:**
- Substitutions in production
 - Complements in production
- 42. If the prices of two goods are indirectly related, they are:**
- Substitutions in consumption
 - Complements in consumption
- 43. Select the good for which sellers are least likely to attempt price discrimination:**
- Higher education
 - Apples
 - Elective surgeries
 - Repair work on a motor vehicle
 - Admission to a movie theater
- 44. Which of the following could be a technological externality?**
- Jim walking into a crowded classroom after having not showered for a week
 - Jim walking into a crowded classroom wearing a shirt that everyone in the room finds beautiful
 - A soda manufacturer using corn syrup, which causes so many dental visits that the price of dental services increases
 - A and B
 - A, B, and C
- 45. Assume for this question that there are no relevant psychic costs involved. In the case of two parties engaged in conflict over some good, the condition of “zero transaction costs” implies that _____ is/are independent of the initial distribution of property rights:**
- The price at which the good is exchanged
 - The utility of both parties
 - The wealth of both parties
 - Resource allocation
 - All the above
 - None of the above
- 46. A binding price ceiling on gasoline will tend to:**
- Benefit high-octane sellers at the expense of low-octane sellers
 - Benefit low-octane sellers at the expense of high-octane sellers
 - Harm both equally

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

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

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

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

49. Which will be more elastic:

- a. Individual demand for apples
- b. Market demand for apples

50. Wheat and corn are substitutes in production. Suppose the government subsidizes ethanol production, which requires corn as an input. What happens in the market for wheat?

- a. The quantity of wheat consumed rises
- b. The quantity of wheat consumed falls
- c. There is no effect in the market for wheat
- d. The quantity of wheat consumed rises, but falls in proportion to the quantity of corn consumed

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 increase revenue by raising 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. 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. **A strike of subway workers would tend to raise the price of taxis:**
- 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. ***Ceteris paribus*, 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. **The degree of price dispersion tends to be greater for low-priced goods than high-priced goods:**
- True
 - False
 - Uncertain
12. **An income tax reduces the quantity of hours worked:**
- True
 - False
 - Uncertain
13. **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
14. **Farmers tend to benefit from harvesting a bumper crop when the market demand for their product is inelastic below the current equilibrium price:**

- a. True
 - b. False
 - c. Uncertain
- 15. Assuming no transaction costs, allocation by price and by waiting tend to be equally efficient means of rationing economic goods:**
- a. True
 - b. False
 - c. Uncertain
- 16. When the marginal product of labor exceeds the average product of labor, the average product of labor is increasing:**
- a. True
 - b. False
 - c. Uncertain
- 17. Since the USPS has a monopoly on first-class mail, it can charge whatever price it wants in order to maximize profits:**
- a. True
 - b. False
 - c. Uncertain
- 18. Profit-maximizing producers attempt to maximize total revenue:**
- a. True
 - b. False
 - c. Uncertain
- 19. If the supply of apples increases, the price will fall, which will cause demand to increase, which will cause the price to increase:**
- a. True
 - b. False
 - c. Uncertain
- 20. 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

21. *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:
- True
 - False
 - Uncertain
22. A relatively non-perishable crop will tend to experience a larger decline in its price around harvest time than a relatively perishable crop:
- True
 - False
 - Uncertain
23. *Ceteris paribus*, when supply shifts, the resultant price change will be greater for a good with fewer substitutes in consumption:
- True
 - False
 - Uncertain
24. *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
25. Consider the market for ice cream cones. An increase in population coincides with the imposition of a new excise tax on cones. After the changes, the new equilibrium quantity is greater:
- True
 - False
 - Uncertain
26. If a tree farm permits its trees to grow to older ages before harvesting and selling them, it is likely that interest rates have risen:
- True
 - False
 - Uncertain
27. A profit-maximizing firm attempts to maximize average profit:
- True

- b. False
- c. Uncertain

28. Patents tend to permit inventors to earn long-run economic profits when they wouldn't otherwise:

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

29. Nepotism is more likely to be observed in Little League than in the MLB:

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

30. Relative to a legal market, prohibition tends to raise the marginal revenue associated with acquiring another customer:

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

31. Effective criminalization (i.e. no black market) of used-book markets would tend to lower authors' per-book profit:

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

32. An inelastic supply of inputs raises the expected marginal benefit of firms' attempting to engage in collusion:

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

33. *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:

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

34. 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:

- a. True
- b. False

- c. Uncertain
- 35. A new law in Pennsylvania preventing businesses from leaving to locate elsewhere may reduce the number of businesses in the state:**
- a. True
 - b. False
 - c. Uncertain
- 36. Diminishing returns to a variable factor are consistent with increasing returns to scale:**
- a. True
 - b. False
 - c. Uncertain
- 37. Diamonds are luxury items which are highly expensive, so *ceteris paribus*, diamond sellers tend to be wealthier than t-shirt sellers:**
- a. True
 - b. False
 - c. Uncertain
- 38. Raising the income tax increases a government's net revenue:**
- a. True
 - b. False
 - c. Uncertain
- 39. A law which prevents landlords from evicting nonpaying tenants tends to help the poor at the expense of the rich:**
- a. True
 - b. False
 - c. Uncertain
- 40. A switch from a monetary economy to a barter economy would tend to hurt toilet paper producers more than piano producers:**
- a. True
 - b. False
 - c. Uncertain
- 41. 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.**
- a. True

- b. False
 - c. Uncertain
- 42. The introduction of worker's compensation (i.e. employers compensating employees for on-the-job injuries) tends to raise the money wages of workers in safe professions relative to dangerous ones:**
- a. True
 - b. False
 - c. Uncertain
- 43. *Ceteris paribus*, the higher the opportunity cost of time among buyers, the greater the dispersion of prices:**
- a. True
 - b. False
 - c. Uncertain
- 44. If a person is willing to buy Gamble A, which offers \$1 million with 1% odds, they'll be willing to pay the same amount for Gamble B, which offers \$20,000 with 50% odds.**
- a. True
 - b. False
 - c. Uncertain
- 45. The price elasticity of demand for apples tends to be greater than that for fruit:**
- a. True
 - b. False
 - c. Uncertain
- 46. The expected benefits of attempting to form a cartel are greater if demand is inelastic above the current equilibrium price:**
- a. True
 - b. False
 - c. Uncertain
- 47. Coupons are offered to entice those with more elastic demands:**
- a. True
 - b. False

- c. Uncertain
- 48. The demand curve tends to become more inelastic over time:**
- a. True
 - b. False
 - c. Uncertain
- 49. The supply of surgeons is more elastic than the supply of cashiers:**
- a. True
 - b. False
 - c. Uncertain
- 50. *Ceteris paribus*, a price ceiling will create a larger shortage with timber than with strawberries:**
- a. True
 - b. False
 - c. Uncertain