Exercises to complete the Equilibrium discussion

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A price ceiling is 1) _______

A) the minimum price that consumers are willing to pay for a good.
B) the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
C) a minimum price set by government that sellers must charge for a good.
D) a maximum price set by government that sellers may charge for a good.

2) A price floor is 2) _______

A) a government set maximum price that sellers may charge for a good.
B) a government set minimum price that sellers may charge for a good.
C) the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
D) the minimum price that buyers are able and willing to pay for a good.

3) Assume the market equilibrium price of rice is $5.00 per pound. If the government does not allow rice farmers to charge more than $1.00 per pound of rice, 3) _______

A) quantity demanded will equal quantity supplied.
B) there will be a rice shortage.
C) there will be a rice surplus.
D) the market equilibrium price will move from $5.00 to $1.00.

Refer to the information provided in Figure 4.1 below to answer the questions that follow.

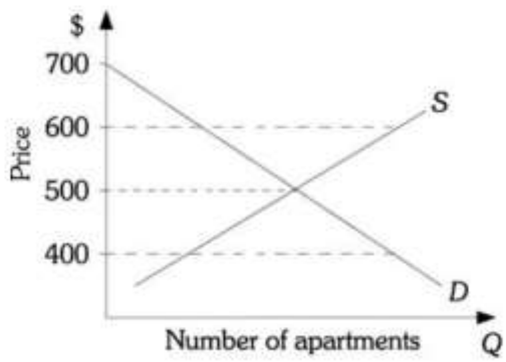

Figure 4.1

4) Refer to Figure 4.1 An example of an effective price ceiling would be the government setting rental rates for apartments at 4) _______

A) $400. B) $500. C) $600. D) $700.

5) Refer to Figure 4.1. If the government will not allow landlords to charge more than $400 for an apartment, which of the following will happen? 5) _______

A) The market will be in equilibrium at a price of $400.
B) A nonprice rationing system such as queuing must be used to ration the available supply of apartments.
C) Supply must eventually increase so that the market will come into equilibrium at a price of $400.
D) Demand must eventually decrease so that the market will come into equilibrium at a price of $400.

6) Refer to Figure 4.1 If the government will not allow landlords to charge less than $600 for an apartment, which of the following will happen? 6) _______

A) Landlords will supply more apartments than renters will demand.
B) Demand must eventually increase so that the market will come into equilibrium at a price of $600.
C) Supply must eventually decrease so that the market will come into equilibrium at a price of $600.
D) The market will be in equilibrium at a price of $600.

7) If government sets a price ceiling below an equilibrium price, 7) _______
A) there will be a shortage.
B) demand will be less than supply.
C) quantity demanded will equal quantity supplied.
D) there will be a surplus.

8) If government sets a price floor below an equilibrium price, 8) _______
A) the floor will be ineffective.
B) there will be a surplus.
C) there will be a shortage.
D) quantity demanded will equal quantity supplied.

9) The government imposes a maximum rental price on apartments that is ABOVE the equilibrium rental price. You accurately predict that 9) _______

A) the law will be effective and create a surplus of apartments.
B) landlords are less likely to do routine maintenance work in the apartments.
C) renters will find that landlords start offering to furnish the apartments.
D) the law will be ineffective and have no economic impact.

10) The government imposes a price ceiling on gasoline that is BELOW the market equilibrium price. You are asked to suggest a rationing scheme that will minimize the misallocation of resources. You suggest using rationing 10) ______

A) coupons that cannot be resold. B) on a first-come, first-served basis.
C) coupons that can be resold. D) only on weekdays.

11) Consider a market that has many buyers but only one seller. Assume the seller has only one unit of the product to sell. Then the market demand curve will be ________ and the seller's supply curve will be ________. 11) ______

A) downward sloping; vertical B) downward sloping; upward sloping
C) vertical; upward sloping D) horizontal; horizontal

12) In the former Soviet Union, central planners fixed the quantity supplied of a staple product in a market at a certain level regardless of the price. The planners also would set the market price below what the equilibrium price would have been. Soviet citizens ________ in line to buy staple products and ________ the amount they wanted to buy given the price they paid. 12) ______

A) did not stand; did not receive B) stood; did not receive
C) did not stand; received D) stood; received

Refer to the information provided in Figure 4.3 below to answer the questions that follow.

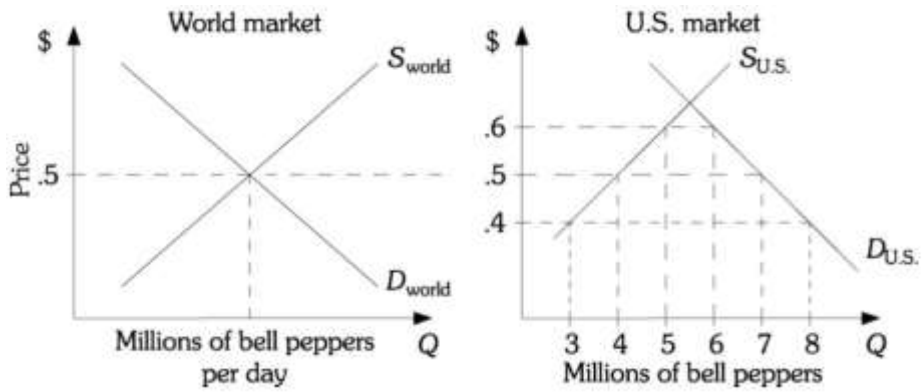

Figure 4.3

13) Refer to Figure 4.3. At the world price of 50 cents per bell pepper the United States imports ________ million bell peppers per day. 13) ______

A) 1 B) 2 C) 3 D) 4

14) Refer to Figure 4.3. If a 10-cent-per-bell-pepper tax is levied on imported bell peppers, the United States will import ________ million bell peppers per day. 14) ______

A) 4 B) 3 C) 2 D) 1

15) Refer to Figure 4.3. If the United States levies no taxes on bell peppers, the price of bell peppers in the United States 15) ______

A) would be 40 cents per bell pepper, and the United States would import 5 million bell peppers per day.
B) would be 60 cents per bell pepper, and the United States would import 1 million bell peppers per day.
C) after the U.S. government eliminated all taxes on imported bell peppers cannot be determined from this information.
D) would be 50 cents per bell pepper, and the United States would import 3 million bell peppers per day.

16) Refer to Figure 4.3. Assume that initially there is free trade. If the United States then imposes a 10-cent tax per bell pepper, 16) ______

A) U.S. imports of bell peppers will increase by 3 million per day.
B) the quantity of bell peppers supplied by U.S. firms will increase by 5 million bell peppers per day.
C) the quantity demanded of bell peppers will be reduced by 2 million bell peppers per day.
D) the price of bell peppers in the United States will increase to 60 cents per bell pepper.

17) The difference between the maximum amount a person is willing to pay for a good and its current market price is known as 17) ______

A) revealed preferences. B) consumer surplus.
C) producer surplus. D) profits.

18) The difference between the minimum amount a firm is willing to accept for a good and its current market price is known as 18) ______

A) profits. B) producer surplus.
C) consumer surplus. D) the paradox of value.

19) You would be willing to pay a maximum of $50 to attend a concert, and you can buy a ticket for $30. Your consumer

surplus is 19) ______

A) $10. B) $20.C) $30. D) $50.

20) When the government sets a price floor above the equilibrium price in a market, consumer surplus will 20) ______

A) not change.
B) not enough information available to determine an answer.
C) fall.
D) rise.

1) D
2) B
3) B
4) A
5) B
6) A
7) A
8) A
9) D
10) C
11) A
12) B
13) C
14) D
15) D
16) D
17) B
18) B
19) B
20) C