

February 06, 2007

## ECON 6901-----Quiz 3

Name: \_\_\_\_\_

1. If market supply decreases and, simultaneously, market demand increases, the new equilibrium will show:
  - a. market price will decrease, and market quantity exchanged will increase.
  - b. market price will increase, and market quantity exchanged will decrease.
  - c. market price will increase, and the quantity exchanged could increase, decrease, or remain the same.
  - d. market price could increase, decrease, or remain the same, and quantity exchanged will increase.
  - e. market price will increase, decrease, or remain the same, and quantity exchanged will decrease.
  
2. If consumers switch away from eating margarine at the same time that the number of margarine suppliers increases, then:
  - a. these two effects cancel each other out and there is no change in the margarine market equilibrium.
  - b. the margarine price decreases while the change of its equilibrium quantity is uncertain.
  - c. there is a margarine price increase.
  - d. there is an excess demand for margarine.
  - e. the equilibrium quantity of margarine must increase.
  
3. If the equilibrium price of aspirins is \$2.50 for 250 tablets and a price ceiling is imposed at \$3.00 for 250 tablets, the eventual result will be a (an):
  - a. surplus.
  - b. shortage.
  - c. depletion of inventories.
  - d. equilibrium.
  
4. Which of the following is *not* a market failure?
  - a. A lack of competition in some markets.
  - b. Prices determined in competitive markets, which consumers, as individuals, have no control over.
  - c. The presence of externalities in some markets.
  - d. A lack of public goods desired by a majority of citizens.
  
5. Which of the following would be an external cost (externality) to the consumption of cigarettes?
  - a. Price of a pack of cigarettes.
  - b. Loss of income resulting from extra missed days of work.
  - c. Higher life insurance premiums due the practice of smoking.
  - d. The loss in utility received because the smoker must stand outside her office building in the winter to smoke.
  - e. Increased risk of cancer to the nonsmoking passengers in the smoker's carpool.

6. Which of the following is *not* an example of an externality?
- Drunk drivers raise everyone's auto insurance premiums.
  - The price of lumber increases as lumberjacks' wages increase.
  - The neighbor's beautiful front yard increases your home value.
  - Someone drives a car that emits thick black smoke.
  - People who live near a bakery enjoy the smell of baked bread.
7. A public good may be defined as any good or service that:
- must be provided to citizens who are most able to benefit from it.
  - must be distributed to all citizens in equal shares.
  - excludes free riders.
  - none of the above.
8. If each of us relied exclusively on the market to determine what to buy, we would probably end up with few, if any:
- streetlights.
  - strawberries.
  - CDs.
  - raincoats.
  - televisions.
9. Price elasticity of demand refers to the ratio of the:
- percentage change in price of a good in response to a percentage change in quantity demanded.
  - percentage change in price of a good to a percentage increase in income.
  - percentage change in the quantity demanded of a good to a percentage change in its price.
  - none of the above.
10. Using the midpoints formula, what would be price elasticity of demand for a gallbladder operation if the number of operations fell from 6,000 to 4,000 per week after its price increased from \$6,000 to \$10,000?
- 0.25.
  - 0.50.
  - 0.80.
  - 1.25