1. Refer to Figure 1. After a tax is imposed on diet soda, the price of a can of diet soda increases from $.50 to $.55. The area that represents the excess burden is
(a) ABCE.
(b) ACFB.
(c) CEF.
(d) GAC.

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Total Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>15,000</td>
<td>1,750</td>
</tr>
<tr>
<td>20,000</td>
<td>2,000</td>
</tr>
<tr>
<td>25,000</td>
<td>2,250</td>
</tr>
</tbody>
</table>

Figure 18.2

2. Refer to Figure 2. If income increases from $10,000 to $15,000, the marginal tax rate is
(a) 5%.
(b) 7%.
(c) 10%.
(d) indeterminate from this information.

3. Refer to Figure 2. The tax rate structure in this example is
(a) proportional.
(b) progressive.
(c) regressive.
(d) none of the above.
4. The Coase theorem states that
(a) the private sector will fail to produce the efficient amount of a public good because of the free-rider problem.
(b) under certain conditions, private parties can arrive at the efficient solution without government involvement.
(c) if there are external costs in production, the government must intervene in the market to assure that the efficient level of output is produced.
(d) public goods should be produced up to the point where the additional benefit received by society equals the additional cost of producing the good.

SITUATION 1: The hula hoop industry has three firms. Hula Hoops Unlimited has 40% of the market and The Ultimate Hula Hoop Company and Hula Hoops Are Us each have 30% of the market. The Ultimate Hula Hoop Company and Hula Hoops Are Us have proposed a merger and studies indicate that this merger will not reduce the market share of Hula Hoops Unlimited.

5. Refer to Situation 1. What will the Herfindahl-Hirschman Index be if the merger between The Ultimate Hula Hoop Company and Hula Hoops Are Us is allowed?
(a) 100
(b) 1000
(c) 2500
(d) 5200

6. Refer to Figure 3. If this firm is regulated so that it can earn a normal return on invested capital, the firm will sell _______ units of output at a price of ________.
(a) 500; $20
(b) 600; $25
(c) 800; $10
(d) 850; $9

Figure 15.1
7. **Refer to Figure 4.** Six firms that produce chewing gum have formed a cartel. The cartel faces the market demand curve given by D. To maximize profits, the cartel should produce ________ packs of chewing gum and the price should be ________.
   (a) 12,000; $.25
   (b) 12,000; $.40
   (c) 14,000; $.30
   (d) $16,000; $.35

8. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
   (a) the efficient output level will be produced in the long run.
   (b) firms will be producing at minimum average cost.
   (c) firms will only earn a normal profit.
   (d) firms realize all economies of scale.
9. Refer to Figure 5. For this monopsonist to maximize profits she should hire _______ units of labor and pay a wage of _______.

(a) 50; $10
(b) 50; $20
(c) 60; $20
(d) 65; $10

10. Refer to Figure 6. The Exclusive Gift company has a monopoly over the sale of gold hula hoops. This company is currently selling 50 gold hula hoops at a price of $5,000. You are hired as an economic consultant to this company. You should advise this monopolist to
(a) shut down in the short run and exit the industry in the long run.
(b) produce in the short run and expand capacity in the long run.
(c) produce in the short run but exit the industry in the long run if conditions do not change.
(d) shut down in the short run but expand capacity in the long run if conditions do not change.
11. A wealthy individual voluntarily contributes 5% of her annual income to charities. Which of the following is TRUE?
   (a) This exchange would not be Pareto optimal, since the individual contributing the money to the charity receives nothing in exchange.
   (b) This exchange must be Pareto optimal or the two parties would not voluntarily agree to the exchange.
   (c) This exchange must be Pareto optimal because contributions to charities are tax deductible.
   (d) From this information there is no way to determine whether or not this exchange is Pareto optimal.

12. Assume the current interest rate is 25%. The present value of $1000 in one year would be
   (a) $180.
   (b) $450.
   (c) $750.
   (d) $800.

13. If the firm is currently hiring capital and labor so that MPL/PL < MPK/PK, then to maximize profits the firm should
   (a) hire less labor and less capital.
   (b) hire more capital and more labor.
   (c) hire more labor and less capital.
   (d) hire less labor and more capital.

14. If the supply of labor decreases, which of the following events will occur?
   (a) The wage rate will fall and firms will increase employment up until the point where MRP equals the new wage rate.
   (b) The wage rate will fall and firms will decrease employment to the point where MRP equals the new wage rate.
   (c) The wage rate will increase and firms will decrease employment to the point where MRP equals the new wage rate.
   (d) The wage rate will increase and firms will increase employment up until the point where MRP equals the new wage rate.

15. Assume the market for beef is perfectly competitive. Beef producers are currently earning a zero economic profit. If consumers switch from beef to chicken, which of the following is most likely to occur?
   (a) Beef producers will now incur economic losses in both the short run and the long run.
   (b) Beef producers will incur economic losses in the short run. Some producers will exit the industry until those remaining are earning a zero economic profit.
   (c) Beef producers will incur economic losses in the short run. Some producers will exit the industry until those remaining are earning an economic profit.
   (d) Beef producers will now earn economic profits in the short run and there will be no additional adjustments in the long run.

16. If the price of an input decreases, each individual firm's marginal cost curve shifts __________ and the industry supply curve
   (a) downward; shifts to the left
   (b) downward; shifts to the right
   (c) up; does not change
   (d) up; shifts to the left

17. If marginal cost equals average total cost, average total cost will
   (a) be maximized.
   (b) decrease.
   (c) increase.
   (d) be minimized.
18. Suppose that the total variable cost curve for Elliot's dog walking service is a straight line sloping upward and to the right. We can conclude that the marginal cost curve for Elliot's dog walking service
(a) is a horizontal line.
(b) slopes upward and to the right.
(c) slopes downward and to the right.
(d) is U-shaped.

19. **Refer to Figure 7.** At point A, the slope of the indifference curve is
   (a) -0.67.
   (b) 1.5.
   (c) 3.
   (d) indeterminate because the marginal utilities are unknown.

20. **Refer to Figure 7.** Jason maximizes utility at point
   (a) A.
   (b) B.
   (c) C.
   (d) D.

21. Brumbling State University decides to raise tuition to increase the total revenue it receives from students. This strategy will work if the demand for a Brumbling education is
   (a) elastic.
   (b) unitarily elastic.
   (c) inelastic.
   (d) inversely related to price.

22. Bill has a job but is considering investing in additional education. A cut in Bill’s marginal tax rate would ________ the cost and ________ the net benefits from the extra education.
   a. decrease, decrease.
   b. decrease, increase.
   c. increase, decrease.
   d. increase, increase.
23. Most of a payroll tax is borne by ________ because labor supply is quite _______.
   a. employers, elastic.
   b. employers, inelastic.
   c. employees, elastic.
   d. employees, inelastic.

24. In two communities, Balado and Clathy, the level of demand for gasoline is identical but it is more elastic in Balado. Marginal cost is assumed to be constant. The imposition of a gasoline tax will cause a greater decrease in consumption in ________ and a greater excess burden in _________.
   a. Balado, Balado.
   b. Balado, Clathy.
   c. Clathy, Balado.
   d. Clathy, Clathy.

25. The measure or value on which a tax is levied is called the
   a. tax burden.
   b. tax structure.
   c. tax base.
   d. tax incidence.

26. Which statement is false? For the monopolistically competitive firm, economic profits
   a. will never occur, because it is easy for firms to enter the industry.
   b. attract new firms, causing each existing firm’s demand curve to shift left.
   c. attract new firms, causing each existing firm’s demand curve become more elastic.
   d. will be zero in long-run equilibrium.

27. Income redistribution is considered to be a public good. Which of the following is a problem for implementing income redistribution as it relates to public goods?
   a. People see no point in contributing voluntarily because their contribution will be insignificant.
   b. People deserve to retain the fruits of their labors.
   c. Giving people handouts may reduce their incentives to work and save.
   d. The poor are often “free riders” living on welfare.

28. A Gini coefficient of one means that
   a. income is distributed equally.
   b. all income is earned by one individual.
   c. 50% of income is earned by the poorest 50% of the population.
   d. 20% of income is earned by the richest 20% (quintile) of the population.

29. Public goods are ________ in consumption and non-purchasers ________ be excluded from their benefits.
   a. rival, can.
   b. rival, cannot.
   c. nonrival, can.
   d. nonrival, cannot.
30. Which of the following is not an example of price discrimination?
   a. Different prices are charged for first-class and second-class mail.
   b. Children are admitted free to the circus but adults must pay the full price.
   c. Military personnel receive a 10% discount in a local steakhouse.
   d. Gamma Airlines offers “frequent fliers” a reduced price on selected flights.

31. In the kinked demand curve model, demand is relatively _______ at prices above the kink because competitors are expected _______ to a price increase.
   a. elastic, to respond.
   b. elastic, not to respond.
   c. inelastic, respond.
   d. inelastic, not to respond.

32. In the long run, economic profits earned in a monopolistically competitive industry will cause _______ the industry and a _______ shift of the typical firm’s demand curve.
   a. entry into, rightward.
   b. entry into, leftward.
   c. exit from, rightward.
   d. exit from, leftward.

33. A frequently heard argument is that government deficits cause higher interest rates. Assuming that this is so, then, ceteris paribus, reducing the government deficit should
   a. increase investment and increase the marginal revenue product of capital
   b. decrease investment and decrease the marginal revenue of product capital
   c. decrease investment and increase the marginal revenue of product capital
   d. increase investment and decrease the marginal revenue of product capital

34. A perfectly competitive decreasing-cost industry in long-run equilibrium experiences a permanent decrease in market demand. When the industry reaches its new long-run equilibrium, the equilibrium price of its good will be _______ than before, the equilibrium industry output will be _______ than before.
   a. higher, higher
   b. lower, lower
   c. lower, higher
   d. higher, lower

35. The ________ broadly we define industry, the _________ substitutes it has, and the ______ elastic the demand for its products.
   a. more, more, more
   b. less, fewer, less
   c. less, more, less
   d. more, fewer, less

36. If the marginal product is greater than average product, the
   a. average product must be decreasing.
   b. marginal product could either be increasing or decreasing.
   c. marginal product must be increasing.
   d. marginal product must be decreasing.
37. The demand for potato chips has a downsloping straight-line demand curve. As the price of chips increases, the price elasticity of demand
a. remains constant-the slope of a straight line is constant.
b. becomes less elastic.
c. becomes more elastic.
d. remains constant-each price increase causes an equal decrease in quantity demand.

38. Ms. Prudence Juris decides to open a law office. She quits her job as an assistant district attorney (annual salary: $25,000) borrows $50,000 at 10% annual interest, hires a secretary at $20,000/year and rents office space at $55,000/year. During her first year, she receives revenues of $100,000. Assuming costs and revenues as represented, what is her economic profit for the year?
   a. $-5,000
   b. zero, but she does earn a normal profit.
   c. $20,000
   d. -$50,000