There are many true/false questions, sometimes true is bubble A and sometimes true is bubble B; so pay no attention to the “T” and “F” on the bubble sheet.

Many of the questions are similar to one another.

Many questions from old exams appear. Sometimes “word for word” in which case the answer is the same as it was before. Sometimes the words are altered in which the answers might have changed.

Before starting the exam I would read through the whole thing, noting which questions appear very similar.

Another reason for reading through the whole exam is that sometimes the information in one question will help you to answer another question.

The exam has 104 questions, so make sure you have all the pages.

Have a good holiday, once your exams are over.

1. If individuals decide to text while driving without considering the costs imposed on others, the: (Choose the answer that is both correct and most informative.)
   A) number of texts sent by each driver will be efficient from his or her perspective, but not efficient from society's perspective.
   B) number of texts sent by drivers will be inefficient.
   C) the number of texts sent by each driver will inefficient from his or her perspective, and inefficient from society's perspective.

2. More efficient is always preferred to less efficient.
   A) True
   B) False

3. Assuming the model (theory) of consumer behavior taught in class and in the book, and assuming all commodities are goods, reducing an individual's budget set will always make the individual worse off.
   A) True
   B) False
4. George makes candy bars. Inputs are chocolate, c, and sugar, s. The constant $MRTS_{cs} = \frac{3}{4}$. The price of sugar is $10 per unit and the price of chocolate is $10 per unit. George will
A) use both chocolate and sugar to produce candy bars
B) use only sugar to produce candy bars
C) use only chocolate to produce candy bars

Use the following to answer question 5:

**Figure: Negative Externalities and Production of Pigs**

5. (Figure: Negative Externalities and Production of Pigs) If the marginal external cost of producing a pig is a constant $200, then the efficient number of pigs from society's perspective is ________ and the efficient price is ________.

A) 250; $700
B) 150; $900
C) 200; $800
D) 300; $800

6. An externality is the actions of one or more economic agents directly affecting, not indirectly through market prices, one or more other economic agents.

A) True
B) False
7. An externality occurs when one economic agent's actions directly affect another economic agent(s) (not through market prices) and the producer of the external effect does not have the correct incentive (not compelled) to take the influence of their actions into account.
   A) True
   B) False

8. The free-rider problem is a direct result of:
   A) marginal-cost pricing.
   B) the inability to exclude nonpayers.
   C) horizontally summed supply curves.
   D) full-cost pricing.

9. For the purposes of this question assume that society consists of children who believe in Santa Claus. Further assume that Santa delivers, on Christmas Eve, presents to all good children who believe in him. Given all this, Santa, on Christmas Eve, is an ideal example of a public good in that he is capable of visiting every house on Christmas Eve, no matter how many (his time on Christmas Eve is non-congestible).
   A) True
   B) False

10. Consider the probability of being infected with AIDS, and the frequency one has unprotected sex with a stranger. While you would never have unprotected sex with a stranger, you have a friend who told you he is going to increase his frequency of unprotected stranger-sex by 10%, and you are worried he might contract AIDS. Under which of the following four scenarios will you worry the least about him contracting AIDS?
    A) The percentage change in the probability of him contracting AIDS divided by the percentage change in the frequency of his unprotected stranger-sex is between zero and negative one.
    B) The percentage change in the probability of him contracting AIDS divided by the percentage change in the frequency of his unprotected stranger-sex is a number less than negative one.
    C) The percentage change in the probability of him contracting AIDS divided by the percentage change in the frequency of his unprotected stranger-sex is a number greater than one.
    D) The percentage change in the probability of him contracting AIDS divided by the percentage change in the frequency of his unprotected stranger-sex is a number between zero and one.
11. Why was John replaced by barb wire? (Choose the alternative that is both correct and most informative.)
   A) Thelma's love for John waned.
   B) The opportunity cost to Thelma of enforcing her property rights are lower with barb wire, partially because her love for John waned.
   C) With John replaced by barb wire, Thelma is free to start dating again.

12. It is impossible for two people to consume the same unit of a good.
   A) True
   B) False

13. Regardless of whether or not they pay for them, people cannot be excluded from receiving the benefits of:
   A) common resources.
   B) private goods.
   C) public goods.
   D) public goods and common-property resources.

Use the following to answer question 14:

**Figure: Model of a Competitive Market**

![Diagram of a Competitive Market](image)

14. (Figure: Model of a Competitive Market) If there are external production costs, a tax imposed on sellers will:
   A) decrease the equilibrium quantity.
   B) decrease the equilibrium quantity and necessarily increase efficiency.
15. In the longrun, a competitive firm will operate at an output level where its total costs are minimized.
   A) True
   B) False

16. The fact that children starve in market economies proves that the market can fail.
   A) True
   B) False

17. Bob's Brewery dumps waste into the Boulder Creek because it is the cheapest way for the brewery to dispose of the waste. The waste negatively impacts the residents in the area because they can no longer use the creek for recreation. Currently, there is no tax or regulation in place to limit Bob's waste disposal. Which of the following is both correct, and most informative?
   A) This is an example of a negative external effect.
   B) This is an example of a negative external effect and a negative externality.
   C) This is an example where the socially optimal level of pollution is occurring.
   D) This is an example of a negative externality.

18. Market failures are things that are inherent to the market that cause the market allocation to be inefficient
   A) True
   B) False

19. Meat processing plants emit unpleasant odors that waft across the city. Because the production of processed meat provides a negative external effect, it must be the case that at the unregulated, competitive market equilibrium quantity:
   A) the marginal social cost of producing processed meat exceeds the market price.
   B) too much processed meat is produced
   C) the market price does not reflect the opportunity cost of producing the processed meat.
   D) all of the other options are correct.

20. According to economists, equilibrium in the allocation of resources and distribution of goods exists when:
   A) scarcity is eliminated.
   B) no individual has an incentive to change his or her behavior.
   C) an individual would be better off taking a different action.
   D) output is distributed equitably.
21. George sneaks up behind Mabel and kisses her, making himself better off and Mabel worse off. If he had to, George would have paid $75 for the opportunity to sneak up and kiss Mabel. Mabel hates George but would have let him kiss her for $50. The kiss is:
   A) Efficiency increasing, even though it makes Mabel worse off.
   B) Efficiency decreasing because Mabel is worse off.
   C) Not enough information to tell whether the kiss is efficiency increasing or decreasing.

22. The market for tattoos in the U.S. is completely unregulated. This is because there are no external costs associated with producing tattoos and no one who lives in the U.S. is affected by the tattoos they see on others. However, tourists from other countries tend to hate them: from their perspective too many American and Confederate flags, too many eagles, too many snakes, and too many Buddhist sayings. Which statement is both correct and most informative?
   A) Economists would say that there will be too many tattoos produced because individuals will not correctly take into account how the tattoos will look when they are old and wrinkled.
   B) There is not enough information provided to determine whether the efficient number of tattoos are produced.
   C) The U.S. will produce too many tattoos from an efficiency perspective because the private benefit of having a tattoo is greater than the social benefit.
   D) The U.S. will produce an efficient amount of tattoos because private and social benefits of tattoos are equal.

23. Imagine Boulder is required by the Federal Government to reduce its toxic emissions by 20%. These emissions come from many different sources. The Boulder City Council achieves this goal by requiring every such facility in Boulder that emits this toxin to reduce their emissions of it by 20%. Which alternative most likely and most fully describes the result?
   A) The requirement is achieved efficiently
   B) The requirement is achieved, but not at minimum cost
   C) The requirement is achieved at minimum cost

24. Assuming no technical progress, the firm's shortrun cost of producing an output level must be greater than its longrun cost of producing that output level.
   A) True
   B) False
25. Many competitive firms produce steel and, as a by-product, pollution. They all face the same input prices, the same world price for steel, and the same state of technical knowledge. Input prices reflect the social costs of the resources.

The government wants to reduce total emissions from steel production by 20%. The government accomplishes this goal by requiring each firm to reduce their pollution by 20%. This goal of the government is achieved at minimum cost to society.
A) True
B) False

26. While one can say they will do something in the future, often such "commitments" are not binding in the sense that when the future arrives one can change their mind and not do what they promised to do. Call this the "inability to reliably commit." Which of the following answers are both correct and most informative.
A) The inability to reliably commit does not cause inefficiency in the allocation of resources because preferences and constraints change over time.
B) The inability to reliably commit is not a source of inefficiency in the allocation of resources.
C) The inability to reliably commit can be a source of inefficiency in the allocation of resources, a market failure. For example, I might, now, promise to pay you after I receive the EBay product I want to buy from you, but since you, the seller, cannot be assured that I will pay later, you do not sell me the product, even though I would have paid, making us both better off.
D) The inability to reliably commit can be a source of inefficiency in the allocation of resources, a market failure.

27. Suppose the market demand for TV remotes is given by the equation \( Q_d = 50 - 0.5P \), where \( P \) is the price and \( Q_d \) represents the number of TV remotes demanded. (The corresponding inverse demand function is \( P = 100 - 2Q_d \)) If the market price of TV remotes is $40, then the quantity demanded would equal ________ and total consumer's surplus will be ________.
A) 30; $400
B) 20; $900
C) 30; $1800
D) 30; $900
28. Assume that cigarette smoking produces a negative external effect (second-hand smoke). The government reacts to this situation by setting a tax on cigarette smoking such that with the tax included the marginal cost of smoking for the smoker is less than the marginal cost to society from his smoking. In this case, the smoker will smoke too little from society's perspective.
   A) True
   B) False

29. Consider a manna-from-heaven model such that God provides the world, every morning, with a fixed amount of cigars and wine, both goods. There has been a war and only two individuals have survived, Esther and Edith, and both are members of society. Visualize their utility-possibilities frontier and a point C inside that frontier. At point C, it must be the case that some of the cigars and wine are not being consumed.
   A) True
   B) False

30. Krugman and Wells put goods into four categories based on two characteristics of goods. What do they call goods that are both non-rivalrous (what Edward would call non-congestible) and non-excludable?
   A) Public Goods
   B) Private Goods
   C) Common Resources
   D) Artificially Scarce Goods
31. (Figure: City with Two Polluters) If the government issued licenses to pollute a total of 1,600 tons of emissions, the market price to emit 1 ton of emissions would equal:
   A) $400.  
   B) $200.  
   C) $100.  
   D) $300.

32. (Figure: City with Two Polluters) If the government wants to limit total pollution to 2,200 tons, it could impose an emissions tax of ________ per unit on both firms.
   A) $200  
   B) $400  
   C) $300  
   D) $100

33. Whales in the ocean are common-property resources if ______________. And, if in addition, they are _______, they will be harvested at an _____ rate.
   A) access to them is uncontrolled; scarce; inefficient
   B) access to them is uncontrolled; not scarce; efficient
   C) Both of the other answers are correct.
34. Willy can only produce apples and carrots. Willy's production-possibilities frontier can be represented with the function \( C = 20 - (1/3)A \) where \( C \) is the number of carrots he produces and \( A \) is the number of apples he produces. For Willy, the opportunity cost of producing a carrot is ___ and the opportunity cost of producing an apple is ___
   A) 1 carrot, 2 apples  
   B) 3 apples, 1/3 carrot  
   C) 3 apples, 3 carrots  
   D) 1/3 apple, 3 carrots

35. George steals your wallet, making himself better off, and you worse off. Before the theft took place the allocation of resources was necessarily efficient.
   A) True  
   B) False

36. I am a firm that needs to dump my toxic waste in a stream, only one stream. I know that after I do it, I will be sued by the Federal Government and forced to pay damages in the sum of total lost consumer's surplus to everyone who fished at the site before I dumped. Ignoring the varying cost of transporting the toxic waste to different streams, which of the following stream options would be my choice if my intent is to maximize the damages I pay.
   A) a pristine stream with a lot of good substitutes because many anglers will get almost as much utility by fishing at one of those close substitutes.  
   B) a pristine stream with few good substitutes.  
   C) a polluted stream with few fish located near a good number of pristine trout streams.  
   D) a polluted stream with few fish, located near a good number equally polluted streams.

37. There is some efficient amount of drunk driving
   A) True  
   B) False

38. Local governments often ban activities that produce negative external effects (no smoking, no skateboarding, no mountain biking, etc.) Is is likely that most of these bans achieve the efficient amount of the activity.
   A) Yes  
   B) No
39. Consider the statement, "Pandas are valuable and should be saved from extinction, even though people do not care one way or the other about pandas." Assuming society consists of only people, this notion of "value" is consistent with how economists define value.
   A) True
   B) False

40. If all prices change by the same proportion (all increase or decrease by the same percent), income remaining constant, there will be both an "substitution effect" and an "income effect."
   A) Yes
   B) No

41. How a competitive firm chooses the input combination to produce its chosen level of output does not depend on the price at which it can sell its output.
   A) True
   B) False

42. In the Fred lectures, If Fred is being paid $x a mile to ski, and currently it is costing her more than $x to crank out her last mile, to increase her profits she needs to ski more.
   A) True
   B) False
43. (Figure: The Shrimp Market) Look at the figure The Shrimp Market. If the government wants to limit shrimp sales to 500 pounds, it:
A) cannot impose a price ceiling of $10.
B) must impose a price floor of $15.
C) must impose a price ceiling of $10.
D) can impose a price floor of $15 or a price ceiling of $10.

44. In a society that consists of one individual, which statement best describes the allocation of resources that is socially optimal
A) The individual is doing well
B) It is an equilibrium
C) The allocation is efficient
D) The individual is doing the best she can given her constraints.

45. Perfect competition is characterized by:
A) rivalry in advertising.
B) widely recognized brands.
C) fierce quality competition.
D) the inability of any one firm to influence price.
46. Could a government policy that reduces pollution to its efficient level, be inefficient?
   A) Yes
   B) No

47. Global warming (a warmer planet) is a good example of a public commodity, for some a public bad, for some a public good.
   A) True
   B) False

48. Put simply, the free-rider problem is that a market economy will likely produce an inefficient amount of public goods (not enough units) because, given that no one can be excluded from consuming the amount produced, consumers have an incentive not to buy the good, hoping that someone else will pay for its production.
   A) True
   B) False

49. If both the demand and supply curves for peanut butter ($ on the vertical axis) shift right
   A) Equilibrium price will fall but we cannot say what will happen to equilibrium quantity
   B) Equilibrium price will rise but we cannot say what will happen to equilibrium quantity
   C) Equilibrium quantity will fall but we cannot say what will happen to equilibrium price
   D) Equilibrium quantity will rise but we cannot say what will happen to equilibrium price
50. Consider the following utility possibility frontier for a society consisting of only Rose and Albert:

Assume that everything Rose and Albert consume has already been produced (i.e. efficiency in production is not a concern), which of the following is true about points A, B, and C?

A) None of the answers.
B) Point A is the most efficient because the sum of Rose's and Albert's utility is the greatest.
C) Point C is the most efficient because it is the most equitable.
D) Point B is the most efficient because in order to make Albert better off, Rose has to be worse off.

51. Former Vice-President Al Gore has suggested that it is possible to produce more goods and have a cleaner environment. Consider a production possibility frontier with goods on the vertical axis and amount pollution is reduced from its no-abatement level on the horizontal axis. Assume that society is currently producing along the frontier, is Al Gore's suggestion true or false?

A) True
B) False
52. Mark has ten apples, but does not like apples. His friends Adam and Sarah like apples, and it costs Mark nothing to give his apples to one or both of them. Initially Adam has ten apples and Sarah has seven. Mark gives Sarah three apples, so Adam and Sarah each have the same number of apples. Mark's gift was __________, and the final allocation of apples is __________.

A) efficiency increasing; inefficient
B) indeterminate in terms of whether it increased or decreased efficiency; inefficient
C) efficiency increasing; efficient
D) efficiency increasing; indeterminate in terms of whether it is efficient or inefficient

53. Goods are redistributed between George and Fred such that after the redistribution Fred is better off and George is worse off. Given this, we know that before the redistribution, the distribution of goods between Fred and George was efficient.

A) True
B) False

54. For the purposes of this question assume that society consists of children who believe in Santa Claus. Further assume that Santa delivers, on Christmas Eve, presents to all good children who believe in him. He is capable of visiting every house on Christmas Eve, no matter how many (his time on Christmas Eve is non-congestible). Given all this, what type of commodity is Santa on Christmas Eve? Choose the answer that seems most reasonable.

A) Santa on Christmas Eve is a public commodity
B) Santa on Christmas Eve is an artificially-scarce commodity
C) It is not reasonable to describe Santa as either a public commodity or an artificially-scarce commodity.

55. An individual's MRS\(_{xy}\) is how much he would give up to get another unit of x, and a firm's MRTS\(_{lk}\) is how much less capital the firm would need to use, holding output constant, if it increased its use of labor by 1 unit.

A) True
B) False

56. An externality occurs when an external effect is being produced at an inefficient level.

A) True
B) False
57. A Pigouvian subsidy is:
A) appropriate when the marginal social cost curve and the marginal social benefit curve intersect at an inefficient level.
B) appropriate when the marginal social cost curve is above the marginal cost of production curve.
C) designed to encourage activities generating external benefits.
D) designed to discourage activities generating externalities.

58. Assume a world of only two goods: hamburgers and hot dogs. At Mabel's current consumption levels, the maximum amount of hot dogs she would be willing to give up in order to obtain one more hamburger is her
A) Marginal rate of substitution of hamburgers for hot dogs
B) Marginal rate of substitution of hot dogs for hamburgers

59. Imagine the U.N. requires that total carbon dioxide emissions by China and the U.S. be reduced by 100 units, a small percentage of each country's current carbon dioxide emissions. Imagine that in the 100 unit range, the marginal cost of reducing carbon emission is always less in China than in the U.S. This is likely to be the case because China tends to produce heat and energy using more carbon intensely than does the U.S. Given all this, which of the following statements is both most likely and most informative.
A) The cost-effective way to achieve the required reduction is for the reduction to occur in the U.S. because production is more efficient in the U.S. than in China.
B) The cost-effective way to achieve the required reduction is for some of the reduction to occur in the U.S. and for some of it to occur in China.
C) Reducing carbon dioxide emission by 100 units in China (zero units in the U.S.) will cost less in terms of the world's scare resources because, in the relevant range, the marginal cost of abatement is always lower in China.
D) Efficiency requires that the 100 unit reduction be achieved by reducing emissions by 100 units in China and zero units in the U.S because labor is abundant in China.

60. Assume a society where there are some resources that are both common property (no economic agent(s) control access) and not scarce. The existence of such resources will cause the competitive market equilibrium to be inefficient.
A) True
B) False
61. Consider a world with only two commodities: beer and bibles. For Wilma, bibles are a good but for Wilma beer starts off as a good but eventually turns into a bad. Consider Wilma's indifference curves with beer on the horizontal axis. Which statement is both correct and most informative.
   A) Her indifference curves are all downward sloping.
   B) Her indifference curves are shaped like an inverted U (first the slope is positive but then switches to negative)
   C) Her indifference curves are U-shaped (first the slope is negative but then switches to positive)
   D) Her indifference curves are all upward sloping

62. Marc, the Boulder liberal, loves Obamacare even more than he loves his wife and kids. Given this, for Marc, every state-of-the-world without Obamacare is ranked lower than every state-of-the-world with Obamacare. (Choose that answer that is both correct and most informative.)
   A) Definitely false
   B) Possible, but highly unlikely.
   C) Definitely true

63. Production is efficient when
   A) The only way to make one member of society better off requires that another member be made worse off.
   B) The only way to increase the production of a good requires that the production of some other good or goods be decreased.

64. Consider a situation where the potential seller's WTA (willingness-to-accept) the loss of the good is less than the potential buyer's WTP (willingness-to-pay) for the good. This situation can occur at the market equilibrium price.
   A) True
   B) False

65. Suppose Alice consumes only wine and cheese. Alice's income increases, the price of wine increases and the price of cheese decreases. Consider Alice's budget line with wine on the vertical axis and cheese on the horizontal axis. What will happen to the slope of Alice's budget line?
   A) It necessarily remains the same.
   B) There is not enough information to tell.
   C) It becomes steeper.
   D) It becomes flatter.
66. The city of Boulder wants to make marijuana affordable to all, so it sets a ceiling on its price. This price ceiling is set at an amount well below the equilibrium price. This government policy will lead to more marijuana being consumed.
A) True
B) False

67. The efficient level of an external effect could be zero.
A) True
B) False

68. Imagine a demand curve for husbands with the "price"/cost of acquiring a husband on the vertical axis. Also imagine a supply curve of males willing to get married, such that the more males are paid to get married (the higher the price), the more that will offer themselves up at the altar. The article you read, "Supply, Demand and Marriage," suggests that the increase in premarital sex in the 1960's (the "Sexual Revolution") was driven by shifts in the demand and supply curve for husbands. Specifically that the husband supply curve (how many guys will get married at each "price") shifted to the right.
A) True
B) False

69. Which of the following statements is true?
A) It is possible to observe how much people are willing-to-pay for an additional unit of a public good.
B) Individuals tend to underestimate the amount of a public good that they desire.
C) It is straightforward to estimate the marginal social benefits of public goods.
D) It is difficult for governments to get an accurate estimate of the marginal social benefits of public goods, because individuals have an incentive to distort the truth about their willingness to pay.

70. Which answer correctly and best describes the link between a theory's definitions and assumptions, and its predictions?
A) Mathematics
B) Logic
C) the process of logical deduction
D) the process of logical induction
71. When the government removes a binding quota:
   A) Price will increase.
   B) Price will remain the same
   C) Price may increase, decrease, or remain the same.
   D) Price will decrease.

72. A commodity that might be a public commodity in an economy where resources are primarily allocated by a central planner (e.g. Cuba) would not likely be a public commodity in an economy where resources are primarily allocated by free markets.
   A) True
   B) False

73. Assume a society that produces only two goods: opera productions and pounds of BBQ. One knows the production function for producing opera productions and the production function for producing BBQ. Is knowledge of the two production function sufficient to determine society's production-possibility frontier for operas and BBQ?
   A) Yes
   B) No

74. Consider the just-ended Presidential election, and the amount of money both sides spent on TV ads. In addition, keep in my that the outcome of the election in terms of the percentage of the vote for each candidate is what the polls predicted months ago. Given all this, up until the day of the election, both sides spending vast amounts on TV ads was ________.
   A) an efficient equilibrium
   B) inefficient but not an equilibrium
   C) efficient but not an equilibrium
   D) an inefficient equilibrium

75. If all prices decrease by 10%, and, at the same time income decreases by 5%, there will be an "income effect" but no "substitution effect."
   A) True
   B) False
76. Gasoline, a derivative of oil, is a large part of transportation costs for many producers of goods. If the price of oil falls at the same time that incomes rise for many consumers, one would expect the equilibrium price of many normal goods to ________, while their equilibrium quantities would ________.
   A) fall; fall, rise, or stay the same
   B) rise; fall, rise or stay the same.
   C) fall, rise, or stay the same; rise
   D) fall, rise, or stay the same; decrease

77. I am a firm that needs to dump some toxic medical waste (dirty needles, etc.). I am going to dump it on a swimming beach, but which one? I want to choose the beach so as to maximize the damages to beach goers (maximize the lost consumer's surplus to beach goers). The firm is owned by a mean guy, me, who does not like to see scantily-clad people. Which of the following is my best choice? In answering, ignore transportation costs.
   A) a pristine beach with a lot of good substitutes
   B) a pristine beach with few good substitutes
   C) a polluted/ugly beach located near a good number of pristine beaches
   D) a polluted/ugly beach near a good number of equally-trashed beaches

78. Suppose we invent and produce 10 million robots and each of those robots has an absolute advantage over us (humans) in the production of everything. Further assume they are maintenance free but need electricity to operate. Further assume that these 10 million robots can produce, without any help from us, current output levels, plus the electricity they need to run. What they produce, above and beyond the electricity they need to run, is given to us humans, for free. In this world, all, or most, of us humans will end up unemployed?
   A) True
   B) False

79. A negative relationship between the quantity demanded and price is called the law of:
   A) market clearing.
   B) supply.
   C) demand.
   D) increasing returns.
80. The french-fry consumption elasticity of body fat is (choose the correct answer that is most informative)
   A) The percent change in one's consumption of french fries divided by the percent change in one's body fat 
   B) The percent change in one's body-fat percentage divided by percent change in one's consumption of french fries 
   C) The percent change in one's consumption of french fries divided by the percent change in one's body-fat percentage. 
   D) The percent change in one's body fat divided by the percent change in one's consumption of french fries 

81. Wilbur is an unattractive guy who has a hard time getting a date: bad breath, greasy hair, and little money. His current probability of getting a date on a Saturday night is 10%. But, Wilbur has a plan: he gets a bunch of cats hoping that having cats will increase his chances of getting a date -- everyone knows that single women love cats. Let "cats" denote how many cats Wilbur has and let "date-probability" denote his probability of getting a date. Given all this, which of the following statements is most conducive to Wilbur achieving his goal.
   A) Wilbur's cat elasticity of date-probability is positive and inelastic 
   B) Wilbur's cat elasticity of date-probability is positive and elastic 
   C) Wilbur's date-probability elasticity of cats is positive and elastic 
   D) Wilbur's date-probability elasticity of cats is negative and elastic 

82. Figure: MB and MC of the Tobacco Industry 

This graph represents the tobacco industry, in which the firm's optimal choice is different from the socially optimal choice. Which of the following could be a possible method for the market to reach the socially efficient point? The industry is producing tobacco.
   A) Give each firm a permission to produce only 35 unit of tobacco. 
   B) Government impose a $0.20 tax on each unit of tobacco produced. 
   C) Issue 35 tradable emissions permits to produce tobacco. 
   D) There is no need for government intervention. The market equilibrium point is already the socially efficient point.
83. Consider a situation where purchases do not occur because the potential seller's WTA (willingness-to-accept) the loss of the good is greater than the potential buyer's WTP (willingness-to-pay) for the good. This situation can occur at the market equilibrium price.
A) True
B) False

84. Consider a utility possibilities frontier. Imagine a society must choose between one specific efficient allocation and one specific inefficient allocation. The society will always choose the efficient allocation.
A) True
B) False

85. Consider a manna-from-heaven model such that God provides the world, every morning, with a fixed amount of cigars and wine, both goods. There has been a war and only two individuals have survived, Esther and Edith, and both are members of society. Visualize their utility-possibilities frontier and a point C inside that frontier. At point C,
A) definitely all the wine and cigars are not being consumed
B) definitely all of the wine and cigars are being consumed
C) maybe all of the wine and cigars are being consumed

86. The government sets a binding price ceiling on rent for NYC apartments, causing inefficiency. This is an example of a market failure.
A) True
B) False

87. I have a ton of old newspapers in my home office. I like them there; Sally, my wife, does not. The current situation is inefficient because ________? Choose the best possible answer.
A) Sally's WTP for their removal is more than my WTA their removal.
B) Sally's WTP for their removal is less than my WTA their removal.
C) Sally's WTP for their removal is more than my WTP to keep them around.
D) it is not right for me to clutter up our home with yellowing newspapers.

88. From the individual's perspective maximizing their utility and behaving efficiently are one and the same.
A) True
B) False
89. Is the following statement true or false? "George's demand function for Diet Cokes and George's marginal willingness-to-pay function for Diet Coke contain the same information, neither contains more nor less.
   A) True
   B) False

90. Consider two commodities: skiing at Vail and skiing at Aspen. The Vail-price elasticity of demand for trips to Aspen is likely negative.
   A) True
   B) False

91. A competitive firm in the shortrun is maximizing its profits at the output level where _____.
   (Choose the answer that is both correct and most informative)
   A) total revenue minus total cost takes its largest value, a value that could be positive, negative, or even zero.
   B) total revenue minus total cost takes its largest value.
   C) the firm is doing the best it can given its constraints.
   D) price equals marginal cost, even if profits are maximized at an output level of zero.

92. Consider a competitive firm in the shortrun with marginal costs that increase as output increases. If this firm is producing a positive amount of output, and if at that amount of output price equals marginal cost, the firm is maximizing its profits.
   A) True
   B) False

93. Thelma's farm, before John arrived, could be reasonably described as a public good because it was open to the public. And, after John arrived, it could be reasonably described as privately-owned resource.
   A) True
   B) False

94. Suppose Justin's Candy Factory currently employs seven workers who produce candy. With these seven workers, the average production of candy is 10 candies per worker. Upon hiring one additional worker, the average production of candy per worker decreases to 8 candies. What is the marginal product of labor?
   A) -6
   B) 6
   C) there is not enough information to determine the marginal product of labor
   D) the marginal product of labor is positive but there is not enough information to determine its exact magnitude.
95. Assuming no other relevant government policies, if the government sets an emissions tax on a noxious gas at a level such that the private cost of emitting that gas (including the tax) is greater than the social cost of emitting that gas: (Choose the answer that the answer that is correct and most informative.)

A) there is not enough information to determine whether the amount of emissions will be efficient.

B) the amount of emissions will be inefficient, too high, and while the environment will be cleaner than if there were no tax, it will be too dirty from an efficiency perspective.

C) the amount of emissions will be inefficient, too low, and while the environment will be cleaner than if there were no tax, it will be too clean from an efficiency perspective.

D) compared to a tax of zero, emissions will decline and the environment will be cleaner.

96. It is impossible for two people to consume the same unit of a private good.

A) True

B) False

97. The efficient number of murders in the U.S. is likely zero.

A) True

B) False

98. Assume the price of a tradable emissions permit for a ton of sulfur dioxide is $150. Which of the following is incorrect?

A) The opportunity cost of emitting an additional ton of sulfur dioxide is $150 for all firms.

B) The opportunity cost of emitting an additional ton of sulfur dioxide is less than $150 for all firms.

C) A firm that has more permits than it plans to use has an incentive to limit pollution up to the point at which the marginal benefit of emissions is equal to $150.

D) A firm that buys permits has an incentive to limit pollution up to the point at which the marginal benefit of emissions is equal to $150.

99. To identify one or more of an individual's indifference curves one must know their utility function because along an indifference curve utility is constant.

A) True

B) False
100. Which of the following is the best definition of an economic system?
   A) The family
   B) Supply and demand
   C) The market which determines what will be produced and how it will be distributed
   D) The process a society uses to determine what will be produced and how it will be distributed

101. True or False? For an individual, the "consumer's surplus" associated with being able to purchase a market good at a specific price, rather than it being unavailable at any price, does not depend on his willingness to pay for that good.
   A) True
   B) False

102. Consider the following budget constraints and indifference curves of a consumer. The straight lines represent two budget constraints, and the curved lines represent two indifference curves. Tangency points are denoted by the black dots.

Which of the following is the most likely to be correct based on the information above?
   A) Good 1 is an inferior good.
   B) Good 2 is an inferior good.
   C) Good 2 is a normal good.
103. If China grows, increasing the world demand for oil, this will increase the price we pay for gasoline. This is an example of a negative externality because their growth makes us worse off.
   A) True
   B) False

104. Because Americans eat a lot of meat, and because meat production uses more resources per calorie produced than other types of food, food production in the U.S. is inefficient.
   A) True
   B) False
Answer Key

1. A
2. B
3. B
4. B
5. A
6. B
7. A
8. B
9. B
10. B
11. B
12. B
13. D
14. A
15. B
16. B
17. B
18. A
19. D
20. B
21. A
22. B
23. B
24. B
25. A
26. C
27. D
28. B
29. B
30. A
31. A
32. C
33. C
34. B
35. B
36. B
37. A
38. B
39. B
40. B
41. A
42. B
43. D
44. D
45. D  
46. A  
47. A  
48. A  
49. D  
50. A  
51. B  
52. A  
53. B  
54. B  
55. B  
56. A  
57. C  
58. A  
59. C  
60. B  
61. C  
62. B  
63. B  
64. B  
65. D  
66. B  
67. A  
68. B  
69. D  
70. C  
71. D  
72. B  
73. B  
74. D  
75. A  
76. C  
77. B  
78. B  
79. C  
80. D  
81. B  
82. C  
83. A  
84. B  
85. C  
86. B  
87. A  
88. A  
89. A  
90. B
91. A
92. A
93. B
94. A
95. C
96. A
97. B
98. B
99. B
100. D
101. B
102. B
103. B
104. B