PRINCIPLES OF MICROECONOMICS TEST BANK

Professors, please email support@mruniversity.com if you would like the answer key to the following questions or if you have any additional suggestions.

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Supply, Demand, and Equilibrium

Video name: The Demand Curve

1. When the price of a good increases the quantity demanded _____.
   
   a. decreases
   
   b. increases
   
   c. stays the same

2. When will people search harder for substitutes for oil?

   a. when the price of oil is low
   
   b. when the price of oil is high
   
   c. people are not incentivized to search for substitutes for oil

Video name: The Supply Curve

1. Along a supply curve, if the price of oil falls, what will happen to the quantity of oil supplied?

   a. it will decrease
   
   b. it will increase
   
   c. it will not change

2. If the price of cars falls, are carmakers likely to make ___________.

   a. more cars
   
   b. fewer cars
   
   c. the same amount of cars
Video name: The Equilibrium Price

1. If the price in a market is above the equilibrium price, this creates ___________.
   a. a shortage
   b. a surplus
   c. neither a shortage nor a surplus

2. When the price is above the equilibrium price, greed (in other words, self-interest) tends to ___________.
   a. push the price down
   b. push the price up
   c. have no effect on price

3. Jon is on eBay, bidding for a first edition of the influential Frank Miller graphic novel Batman: The Dark Knight Returns. In this market, who is Jon competing with?
   a. The seller of the graphic novel
   b. The other bidders
   c. eBay’s stakeholders

4. Now, Jon is in Japan, trying to get a job as a full-time translator; he wants to translate English TV shows into Japanese and vice versa. He notices that the wage for translators is very low. Who is the “competition” that is pushing the wage down?
   a. Businesses who hire translators
   b. Other translators
1. Your roommate just bought an iPod for $200. She would have been willing to pay $500 for a machine that could store and replay that much music. How much consumer surplus does your roommate enjoy from the iPod?

a. $200
b. $300
c. $500

The economist Bryan Caplan recently found a pair of $10 arch supports that saved him from the pain of major foot surgery. As he stated on his blog (econlog.econlib.org), he would have been willing to pay $100,000 to fix his foot problem, but instead he only paid a few dollars.

2. How much consumer surplus did Bryan enjoy from this purchase?

a. $10
b. $10,000
c. $99,990

3. If the sales tax was 5 percent on this product, how much revenue did the government raise when Bryan bought his arch supports?

a. 50 cents
b. $5
c. $50
4. If the government could have taxed Bryan based on his willingness to pay rather than on how much he actually paid, how much sales tax would Bryan have had to pay?

a. $50

b. $500

c. $5,000

5. What should happen to the “demand for speed” (measured by the average speed on highways) once airbags are included on cars?

a. The demand for speed increases

b. The demand for speed decreases

c. The demand for speed stays the same

**Video name:** The Demand Curve Shifts

1. When the price of Apple computers goes down, what probably happens to the demand for Windows-based computers?

a. The demand for Windows-based computers increases

b. The demand for Window-based computers decrease

c. A change in the price of Apple computers has no effect on the demand for Windows-based computers

2. When the price of olive oil goes up, what probably happens to the demand for corn oil?

a. The demand for corn oil increases

b. The demand for corn oil decreases

c. A change in the price of olive oil has no effect on the demand for corn oil
3. When the price of petroleum goes up, what probably happens to the demand for natural gas?

a. The demand for natural gas increases

b. The demand for natural gas decreases

c. A change in the price of petroleum has no effect on the demand for natural gas

4. If everyone thinks that the price of tomatoes will go up next week, what is likely to happen to demand for tomatoes today?

a. The demand for tomatoes increases

b. The demand for tomatoes decreases

c. Expectations about the price of tomatoes has no effect on the demand for tomatoes today

Video name: A Deeper Look at the Supply Curve

1. Michael is an economist. He loves being an economist so much that he would do it for a living even if he only earned $30,000 per year. Instead, he earns $80,000 per year. (Note: This is the average salary of new economists with a Ph.D. degree.) How much producer surplus does Michael enjoy?

a. $30,000

b. $50,000

c. $80,000

2. The industrial areas in northeast Washington, DC, were relatively dangerous in the 1980s. Over the last two decades, the area has become a safer place to work (although there are still seven times more violent crimes per person in these areas compared with another DC neighborhood, Georgetown). When an area becomes a safer place to work, what probably happens to the “supply of labor” in that area?
a. the supply of labor increases

b. the supply of labor decreases

c. the supply of labor does not change

**Video name: The Supply Curve Shifts**

1. **When is a pharmaceutical business more likely to hire highly educated, cutting-edge workers and use new, experimental research methods?**
   
a. When the business expects the price of its new drug to be low
   
b. When the business expects the price of its new drug to be high
   
c. The pharmaceutical business is unlikely to hire highly educated workers under any price.

2. **Imagine that a technological innovation reduces the costs of producing high-quality steel. What happens to the supply of steel?**
   
a. The supply of steel increases
   
b. The supply of steel decreases
   
c. Reduced production costs for steel have no effect on the supply of steel

3. **When oil companies expect the price of oil to be higher next year, what happens to the supply of oil today?**
   
a. The supply of oil increases
   
b. The supply of oil decreases
   
c. Expectations about the price of oil have no effect on the supply of oil today
4. Do taxes usually increase the supply of a good or reduce the supply?

a. Taxes increase the supply of the good

b. Taxes reduce the supply of the good

c. Trick question! Taxes have no effect on the supply of a good.

Video name: Exploring Equilibrium

Jules wants to purchase a Royale with cheese from Vincent. Vincent is willing to offer this tasty burger for $3. The most Jules is willing to pay for the tasty burger is $8 (after all, his girlfriend is a vegetarian, so he doesn’t get many opportunities for tasty burgers).

1. How large are the potential gains from trade if Jules and Vincent agree to make this trade? In other words, what is the sum of producer and consumer surplus if the trade happens?

a. $3

b. $4

c. $5

2. If the trade takes place at $4, how much producer surplus goes to Vincent? How much consumer surplus goes to Jules?

a. $1 goes to Vincent, $4 goes to Jules

b. $4 goes to Vincent, $1 goes to Jules

c. $2 goes to Vincent, $3 goes to Jules

3. If the trade takes place at $7, how much producer surplus goes to Vincent? How much consumer surplus goes to Jules?

a. $1 goes to Vincent, $4 goes to Jules
b. $4 goes to Vincent, $1 goes to Jules

c. $2 goes to Vincent, $3 goes to Jules

**Video name:** Does the Equilibrium Model Work?

1. *What happened in Vernon Smith’s lab?*

   a. The price and quantity were close to equilibrium but gains from trade were far from the maximum.

   b. The price and quantity were far from equilibrium and gains from trade were far from the maximum.

   c. The price and quantity were far from equilibrium but gains from trade were close to the maximum.

   d. The price and quantity were close to equilibrium and gains from trade were close to the maximum.

2. *When demand increases, what happens to price and quantity in equilibrium?*

   a. Price increases and quantity decreases

   b. Price decreases and quantity increases

   c. Price and quantity both increase

   d. Price and quantity both decrease

3. *When supply increases, what happens to price and quantity in equilibrium?*

   a. Price increases and quantity decreases

   b. Price decreases and quantity increases
c. Price and quantity both increase
d. Price and quantity both decrease

4. When supply decreases, what happens to price and quantity in equilibrium?

a. Price increases and quantity decreases
b. Price decreases and quantity increases
c. Price and quantity both increase
d. Price and quantity both decrease

5. When demand decreases, what happens to price and quantity in equilibrium?

a. Price increases and quantity decreases
b. Price decreases and quantity increases
c. Price and quantity both increase
d. Price and quantity both decrease

6. What’s the best way to think about the rise in oil prices in the 1970s, when wars and oil embargoes wracked the Middle East?

a. A rise in demand
b. A fall in demand
c. A rise in supply
d. A fall in supply
7. What's the best way to think about the rise in oil prices in the last 10 years, as China and India have become richer: Was it a rise in demand, a fall in demand, a rise in supply, or a fall in supply?

a. A rise in demand

b. A fall in demand

c. A rise in supply

d. A fall in supply

Video name: Supply and Demand Terminology

1. When supply falls, what happens to quantity demanded in equilibrium?

a. Quantity demanded increases

b. Quantity demanded decreases

c. A change in supply has no effect on quantity demanded

2. If oil executives read in the newspaper that massive new oil supplies have been discovered under the Pacific Ocean but will likely only be useful in 10 years, what is likely to happen to the supply of oil today?

a. The supply of oil will rise today

b. The supply of oil will fall today

c. There will be no change in the supply of oil

3. If oil executives read in the newspaper that new solar-power technologies have been discovered but will likely only become useful in 10 years, what is the likely equilibrium impact on the price and quantity of oil today?

a. The price of oil will increase, the quantity of oil will decrease
b. the price of oil will decrease, the quantity of oil will increase

c. the price and quantity of oil will decrease

d. the price and quantity of oil will increase

4. If we learn today about promising future energy sources, today’s price of energy will _______ and today’s quantity of energy will _________.

a. rise, fall

b. fall, rise

c. rise, rise

c. rise, rise
Elasticity and Its Applications

Video name: Elasticity of Demand

1. Which of the following two goods is more likely to be inelastically demanded?
   
   a. Demand for tangerines
   
   b. Demand for fruit

2. Which of the following two goods is more likely to be inelastically demanded?
   
   a. Demand for beef next month
   
   b. Demand for beef over the next decade

3. Which of the following two goods is more likely to be inelastically demanded?
   
   a. Demand for Exxon gasoline at the corner of 7th and Grand
   
   b. Demand for gasoline in the entire city

4. Which of the following two goods is more likely to be inelastically demanded?
   
   a. Demand for insulin
   
   b. Demand for vitamins

5. After a public information campaign highlighting that bacteria and other organisms cause and spread disease, will the demand curve for soap be more elastic or more inelastic?
   
   a. More elastic
   
   b. More inelastic
6. After the invention of nuclear power plants, will the demand curve for coal power plants be more elastic or more inelastic?

a. More elastic  
b. More inelastic

7. After more employers allow employees to telecommute, will the demand curve for cars be more elastic or more inelastic?

a. More elastic  
b. More inelastic

8. After an economic boom, will the demand curve for TVs be more elastic or more inelastic?

a. More elastic  
b. More inelastic

9. During the Middle Ages, the African city of Taghaza quarried salt in 200-pound blocks to be sent to the salt market in Timbuktu, in present-day Mali. Travelers report that Taghazans used salt instead of wood to construct buildings. Compared with other towns without big salt mines, was the demand for wood more elastic or more inelastic in Taghaza?

a. More elastic  
b. More inelastic

Video name: Calculating the Elasticity of Demand

1. If the elasticity of demand for college textbooks is -0.1, and the price of textbooks increases by 20%, how much will the quantity demanded change, and in what direction?
a. The quantity demanded increases by 2%

b. The quantity demanded decreases by 20%

c. The quantity demanded decreases by 2%

d. The quantity demanded remains the same

2. If the elasticity of demand for spring break packages to Cancun is -5, and if you notice that this year in Cancun the quantity of packages demanded increased by 10%, then what happened to the price of Cancun vacation packages?

a. The price fell by 10 percent

b. The price fell by 2 percent

c. The price increased by 2 percent

d. The price remained the same

3. In your college town, real estate developers are building thousands of new student-friendly apartments close to campus. If you want to pay the lowest rent possible, should you hope that demand for apartments is elastic or inelastic?

a. Elastic

b. Inelastic

4. In your college town, the local government decrees that thousands of apartments close to campus are uninhabitable and must be torn down next semester. If you want to pay the lowest rent possible, should you hope that demand for apartments is elastic or inelastic?

a. Elastic

b. Inelastic
5. The long-run elasticity of oil demand has been estimated at -0.5. If the price of oil rises by 10%, how much will the quantity of oil demanded fall?

a. 5%

b. 0.5%

c. 2%

d. 20%

6. The long-run elasticity of oil demand has been estimated at -0.5. Does a 10% rise in oil prices increase or decrease total revenues to the oil producers?

a. Increase

b. Decrease

7. In the United States, the long-run elasticity of oil demand has been estimated at -0.5. Some policymakers and environmental scientists would like to see the United States cut back on its use of oil in the long run. We can use this elasticity estimate to get a rough measure of how high the price of oil would have to permanently rise in order to get people to make big cuts in oil consumption. How much would the price of oil have to permanently rise in order to cut oil consumption by 50%?

a. 5%

b. 25%

c. 50%

d. 100%

8. France has the largest long-run elasticity of oil demand (–0.6) of any of the large, rich countries, according to Cooper’s estimates. Does this mean that France is better at responding
to long-run price changes than other rich countries, or does it mean France is worse at responding?

a. Better at responding

b. Worse at responding

9. The elasticity of demand is 0.2. Is the demand curve relatively steep or flat? Will a fall in price raise total revenue or lower it? Note: we present the elasticity in terms of its absolute value.

a. Relatively steep; raise total revenue

b. Relatively flat; raise total revenue

c. Relatively steep; lower total revenue

d. Relatively flat; lower total revenue

10. The elasticity of demand is 2.0. Is the demand curve relatively steep or flat? Will a fall in price raise total revenue or lower it? Note: we present the elasticity in terms of its absolute value.

a. Relatively steep; raise total revenue

b. Relatively flat; raise total revenue

c. Relatively steep; lower total revenue

d. Relatively flat; lower total revenue

11. The elasticity of demand is 1.1. Is the demand curve relatively steep or flat? Will a fall in price raise total revenue or lower it? Note: we present the elasticity in terms of its absolute value.

a. Relatively steep; raise total revenue

b. Relatively flat; raise total revenue

c. Relatively steep; lower total revenue
12. The elasticity of demand is 0.9. Is the demand curve relatively steep or flat? Will a fall in price raise total revenue or lower it? Note: we present the elasticity in terms of its absolute value.

a. Relatively steep; raise total revenue
b. Relatively flat; raise total revenue
c. Relatively steep; lower total revenue
d. Relatively flat; lower total revenue

13. Henry Ford famously mass-produced cars at the beginning of the twentieth century, starting Ford Motor Company. He made millions because mass production made cars cheap to make, and he passed some of the savings to the consumer in the form of a low price. Cars became a common sight in the United States thereafter. Keeping total revenue and its relationship with price in mind, do you expect the demand for cars to be elastic or inelastic given the story of Henry Ford? *

a. Elastic
b. Inelastic

Video name: Office Hours: Elasticity of Demand

Let's return to the example from the video, but instead of thinking about the situation from the college student’s perspective, let’s think about it from the housing developer’s or apartment owner’s perspective.

1. If housing developers started to build lots of residential buildings in your college town, would they prefer demand for apartments is elastic or inelastic? (Hint: Revenue = Price * Quantity)

a. Elastic.
b. Inelastic.
2. If thousands of apartments are condemned in your college town, do landlords hope price for apartments is elastic or inelastic? (Hint: Revenue = Price * Quantity)

a. Elastic.

b. Inelastic.

**Video name: Elasticity of Supply**

1. Which of the two goods is more likely to be elastically supplied?

a. Supply of apples over the next growing season

b. Supply of apples over the next decade

2. Which of the two goods is more likely to be elastically supplied?

a. Supply of construction workers in Binghamton, NY

b. Supply of construction workers in New York State

3. Which of the two goods is more likely to be elastically supplied?

a. Supply of breakfast cereal

b. Supply of food

4. Which of the two goods is more likely to be elastically supplied?

a. Supply of gold

b. Supply of computers
5. If a new process for manufacturing diamonds is created, will the supply curve for diamonds become more elastic or more inelastic?

a. More elastic  
b. More inelastic

6. If pesticides and fertilizers are banned, will the supply curve for food become more elastic or more inelastic?

a. More elastic  
b. More inelastic

7. If a larger share of oil output is required to make plastic, will the supply curve for plastic become more elastic or more inelastic?

a. More elastic  
b. More inelastic

8. In 1993, then President Clinton passed a law raising income taxes. This tax hike was fully expected: He campaigned on it in 1992. What do you expect happened to executive income in the first year of the tax increases? What about in subsequent years? Hint: Top executives have a lot of power over when they get paid for their work: They can ask for bonuses a bit earlier, or they can cash out their stock options a bit earlier. Literally, this isn’t their “labor supply,” it’s more like their “income supply.”

a. In the first year income will decrease; in the long run it will decrease  
b. In the first year income will decrease; in the long run it will remain nearly the same  
c. In the first year income will increase; in the long run it will decrease  
d. In the first year income will increase; in the long run it will remain nearly the same
9. Economist Austen Goolsbee estimated that the short-run elasticity of “income supply” for these executives was 1.4, while the long-run elasticity of “income supply” was 0.1. (Note: Goolsbee used a variety of statistical methods to look for these elasticities, and all came to roughly the same result.) If taxes pushed down their take-home income by 10%, how much would this cut the amount of income supplied in the short run? In the long run?

a. Short run income would decrease 10%; long run income would decrease 1%

b. Short run income would decrease 14%; long run income would decrease 1%

c. Short run income would decrease 10%; long run income would decrease 2%

d. Short run income would decrease 14%; long run income would decrease 2%

Video name: Elasticity and Slave Redemption

1. For which of the following products would you expect the largest increase in price for the same increase in demand?

a. Flashlights

b. Pens

c. A first edition of Adam Smith's The Wealth of Nations

d. Jeans

2. A good is more elastic when

a. it is easy to produce more at the same cost

b. it is made from rubber

c. it is difficult to produce more at the same cost

d. the marginal cost is equal to the price
3. In the world of fashion, the power to imitate a trendy look is the power to make money. Stores like H&M and Forever 21 focus on imitating fashions wherever possible: As soon as they see that a new look is coming along, something people are willing to pay a high price for, they start cranking out that look. Do these imitation-centered stores make the supply of clothing more elastic or more inelastic?

a. More elastic

b. Less elastic

4. A lot of American action movies are quests to eliminate a villain. If in real life villains are elastically supplied (like guns for buyback programs), should we care whether the hero captures a particular villain?

a. Yes

b. No

Video name: Applications Using Elasticity

1. Suppose that drug addicts pay for their addiction by stealing: So the higher the total revenue of the illegal drug industry, the higher the amount of theft. If a government crackdown on drug suppliers leads to a higher price of drugs, what will happen to the amount of stealing if the demand for drugs is elastic?

a. The overall amount of stealing will decrease

b. The overall amount of stealing will increase

c. The overall amount of stealing will remain the same

2. Suppose that drug addicts pay for their addiction by stealing: So the higher the total revenue of the illegal drug industry, the higher the amount of theft. If a government crackdown on drug suppliers leads to a higher price of drugs, what will happen to the amount of stealing if the demand for drugs is inelastic?

a. The overall amount of stealing will decrease
b. The overall amount of stealing will increase

c. The overall amount of stealing will remain the same

3. Immigration is a fact of life in the United States. This will lead to a big boost in the labor supply. What field would you rather be in?

a. A field where the demand for your kind of labor is elastic.

b. A field where the demand for your kind of labor is inelastic.

4. We saw that a gun buyback program was unlikely to work in Washington, D.C. If the entire United States ran a gun buyback program, would that be better at eliminating guns or worse? * Hint: Is the supply of guns at a national level more elastic or more inelastic?

a. Better

b. Worse
**Taxes and Subsidies**

**Video name: Commodity Taxes**

1. Fill in the blanks: As long as supply and demand curves have their normal shape (the demand curves have a negative slope while supply curves have a positive slope), if there is a tax, the equilibrium quantity must _______ and the price that buyers pay must _______.

   a. Fall; rise
   
   b. Fall; fall
   
   c. Rise; fall
   
   d. Fall; rise

2. Fill in the blanks: As long as supply and demand curves have their normal shape (the demand curve has a negative slope while supply curves have appositive slope), if there is a tax, the equilibrium quantity must _______ and the price that sellers receive must _______.

   a. Fall; rise
   
   b. Fall; fall
   
   c. Rise; fall
   
   d. Fall; rise

**Video name: Who Pays the Tax?**

1. Junk food has been criticized for being unhealthy and too cheap, enticing the poor to adopt unhealthy lifestyles. Suppose that the state of Oklakansas imposes a tax on junk food. For the tax to actually deter people from eating junk food, should junk food demand be elastic or inelastic?

   a. Elastic
   
   b. Inelastic
2. If the Oklakansas government wants to strongly discourage people from eating junk food, when will it need to set a higher tax rate: When junk food demand is elastic or when it is inelastic?

a. Elastic
b. Inelastic

3. Let’s take a look at the supply side of junk food. If junk food supply is highly elastic—perhaps because it’s not that hard to start selling salads with lowfat dressing instead of mayonnaise- and cheese-laden burgers—will a junk food tax have a bigger effect if supply were inelastic or elastic?

a. Elastic
b. Inelastic

4. If a government is hoping that a small tax can actually discourage a lot of junk food purchases, it should hope for:

a. Elastic supply and inelastic demand
b. Elastic supply and elastic demand
c. Inelastic supply and elastic demand
d. Inelastic supply and inelastic demand

5. What does it mean that elasticity equals escape? (This is worth remembering: Elasticity is one of the toughest ideas for most economics students.)

a. People with elastic demands don’t like to pay taxes
b. It is easy for market participants to escape to another market if they have elastic demand or supply.

c. Resources used to produce goods with elastic supply cannot be used for much else.

6. One way governments have tried to collect taxes from the wealthy is through the use of luxury taxes, which are exactly what they sound like: taxes on goods that are considered luxuries, like jewelry or expensive cars and real estate. What is true about the demand for luxuries?

a. It is elastic

b. It is inelastic

c. It is unit elastic

7. Consider jewelry. Is a luxury tax more likely to hurt the buyers of jewelry, or the sellers of jewelry?

a. The buyers

b. The sellers

8. Let's apply the economics of taxation to romantic relationships. Sometimes relationships have taxes. Suppose that you and your boyfriend or girlfriend live one hour apart. Using the tools developed in the chapter, how can you predict which one of you will do most of the driving? That is, which one of you will bear the majority of the relationship tax?

a. The person with more inelastic demand for the relationship will bear the tax – he or she will do most of the driving.

b. The person with more elastic demand for the relationship will bear the tax – he or she will do most of the driving.

9. In the opening scene of the classic Eddie Murphy comedy Beverly Hills Cop, Axel Foley, a Detroit police officer, is stopping a cigarette smuggling ring. Of course, smugglers don’t pay the
tax when the cigarettes cross state lines. Which way do you suspect the smugglers were moving the cigarettes, based on economic theory?

a. From the high-tax North to the low-cost South.

b. From the low-cost South to the high-tax North.

10. In our discussion of taxation, we’ve acted as if it were effortless to pass and enforce tax laws. But, of course, law enforcement officials including the Internal Revenue Service put a lot of effort into enforcing tax laws. Let’s think for a moment about what kind of taxes are easiest to collect, just based on the basic ideas we’ve covered. Who will make the most effort to escape a tax?

a. The party who is elastic

b. The party who is inelastic

c. Neither party

Video name: Tax Revenue and Deadweight Loss

1. Decades ago, Washington, DC, a fairly small city, wanted to raise more revenue by increasing the gas tax. Washington, DC, shares borders with Maryland and Virginia, and it’s very easy to cross the borders between these states. How elastic is the demand for gasoline sold at stations within Washington, DC? In other words, if the price of gas in DC rises, but the price in Maryland and Virginia stays the same, will gasoline sales at DC stations fall a little, or will they fall a lot?

a. Elastic – gasoline sales would fall a lot

b. Inelastic – gasoline sales would fall a little

2. Given your answer on the previous question, how much revenue did it raise when it increased its gasoline tax?

a. A little revenue

b. A lot of revenue
3. If DC, Maryland, and Virginia all agreed to raise their gas tax simultaneously, how much revenue could the gas tax raise? Note: These states have heavily populated borders with each other, but they don’t have any heavily populated borders with other states.

a. A little revenue

b. A lot of revenue

4. Suppose that Maria is willing to pay $40 for a haircut, and her stylist Juan is willing to accept as little as $25 for a haircut. What possible price for the haircut would be beneficial to both Maria and Juan?

a. $20

b. $30

c. $45

5. Given that Maria and Juan find a price suitable to both of them, how much total surplus (i.e., the sum of consumer and producer surplus) would be generated?

a. $15

b. $30

c. $10

6. If the state where Maria and Juan live instituted a tax on services that included a $5 per haircut tax on stylists and barbers, what is one price that will make both Maria and Juan better off?

a. $28

b. $30
c. $42

d. There are no prices that are suitable to both Maria and Juan

7. Suppose that Maria is willing to pay $40 for a haircut, and her stylist Juan is willing to accept as little as $25 for a haircut. If the state where Maria and Juan live instituted a tax on services that included a $5 per haircut tax on stylists and barbers, what will happen to the $15 of economic benefit?

a. It will decrease

b. It will increase

c. It will stay the same

8. Suppose that Maria is willing to pay $40 for a haircut, and her stylist Juan is willing to accept as little as $25 for a haircut. If a previous $5 tax increases to $20, will the haircut transaction still happen?

a. Yes

b. No

9. The competitive market equilibrium maximizes gains from trade. Taxes and subsidies, by altering the market outcome, reduce the gains from trade. Does this happen primarily because of the impact of taxes and subsidies on prices, or the impact of taxes and subsidies on quantities?

a. The impact on prices

b. The impact on quantities

Video name: Subsidies
1. Fill in the blanks: When the government subsidizes an activity, resources such as labor, machines, and bank lending will tend to gravitate _________ the activity that is subsidized and will tend to gravitate _________ activity that is not subsidized.

a. toward; away from  
b. toward; toward  
c. away from; toward  
d. away from; away from

2. Fill in the blanks: When the government taxes an activity, resources such as labor, machines, and bank lending will tend to gravitate _________ the activity that is taxed and will tend to gravitate ________ activity that is not taxed.

a. toward; away from  
b. toward; toward  
c. away from; toward  
d. away from; away from

3. Some people with diabetes absolutely need to take insulin on a regular basis to survive. Pharmaceutical companies that make insulin could find a lot of other ways to make some money. If the U.S. government imposes a tax on insulin producers of $10 per cubic centimeter of insulin, payable every month to the U.S. Treasury, who will bear most of the burden of the tax?

a. Insulin producers  
b. People with diabetes  
c. Not enough information is given

30
4. Suppose instead that because of government corruption, the insulin manufacturers convince the U.S. government to pay the insulin makers $10 per cubic centimeter of insulin, payable every month from the U.S. Treasury. Who will get most of the benefit of this subsidy?

a. Insulin producers
b. People with diabetes
c. Not enough information is given

Video name: Wage Subsidies

1. What effect do wage subsidies have on employment?

a. Wage subsidies increase employment
b. Wage subsidies decrease employment
c. Wage subsidies have no effect on employment

2. What effect do wage subsidies have on the demand for welfare payments?

a. Wage subsidies increase the demand for welfare payments
b. Wage subsidies decrease the demand for welfare payments
c. Wage subsidies have no effect on the demand for welfare payments

3. Which one of the following options is a real life example of a wage subsidy?

a. Food stamps (SNAP)
b. Housing assistance
c. The Earned Income Tax Credit
d. The minimum wage
4. Fill in the blanks: Wage subsidies _____ the demand for labor and the number of low skilled jobs. The minimum wage laws _____ the demand for labor and the number of low skilled jobs.

a. increase; increase

b. increase; decrease

c. decrease; increase

d. decrease; decrease
1. Circa 1200 BCE, a decreasing supply of tin due to wars and the breakdown of trade led to a drastic increase in the price of bronze in the Middle East and Greece (tin being necessary for its production). It is around this time that blacksmiths developed iron- and steel-making techniques (as substitutes for bronze). What does the increasing price of bronze signal?

   a. It tells people that bronze is getting harder to find and its higher price will signal consumers to conserve it more or seek substitutes.
   
   b. It tells people that there is a price bubble forming around bronze and that people are overvaluing the price of bronze.
   
   c. It tells people that the wars in the Middle East and Greece are coming close to being resolved because of bronze scarcity.
   
   d. It tells people to buy more bronze because it is going to be more valuable in the future.

2. How is the increasing price of bronze an incentive?

   a. Consumers will save more money by conserving bronze.
   
   b. Consumers who switch to substitutes can save money.
   
   c. Entrepreneurs can profit by developing new alternatives to bronze.
   
   d. Entrepreneurs can profit by developing ways to recycle bronze.
   
   e. All of the above.

3. Why do you think iron and steel became more common around the same time as the increase in price of bronze?

   a. An increase in the demand for bronze signals that people are wealthy enough to afford iron and steel.
b. An increase in the price of bronze encourages innovation to produce substitutes.

c. An increase in the price of a resource signals that it is too competitive to make a profit, so entrepreneurs seek other alternatives.

d. The introduction of iron and steel differentiates bronze for specific uses and therefore causes its price to increase.

4. After the development of iron, did the supply or demand for bronze shift? Which way did it shift? Why?

a. The demand for bronze shifted to the left (down) because there was now a good substitute for bronze.

b. The demand for bronze shifted to the right (up) because there was now a good substitute for bronze.

c. The supply for bronze shifted to the right (down) because there was now a good substitute for bronze.

d. The supply for bronze shifted to the left (up) because the quantity demanded of bronze decreased.

5. One question that economics students often ask is “In a market with a lot of buyers and sellers, who sets the price of the good?” There are two possible correct answers to this question: “Everyone” and “No one.” What is meant by “Everyone?”

a. In a market operating in a western democracy, everyone gets to vote on price controls and restrictions to ensure the market operates fairly.

b. In a market with many participants, each person’s actions push the supply or the demand just a little bit, so everyone has some small influence.

c. In a market with many suppliers and demanders, each person’s actions have a negligible effect on supply or the demand, so everyone has to work together to influence the market.

d. Everyone has to consume something.
6. What is meant by “No one?”

a. No one person’s behavior can affect prices.

b. No one wants the equilibrium price. Everyone wants the lowest price possible.

c. There is too much information for suppliers to know how to set prices.

d. Nobody actually plans for a given price to be the equilibrium price.

Video name: Markets Link the World

1. Suppose you learned that growing political instability in Chile (the largest producer of copper) will greatly reduce the productivity of its mines in two years. Ignoring all other factors, which curve (demand or supply) will shift which way in the market for copper two years from now?

a. Demand curve will increase, that is, a shift to the right (up).

b. Demand curve will decrease, that is, a shift to the left (down).

c. Supply curve will increase, that is, a shift to the right (down).

d. Supply curve will decrease, that is, a shift to the left (up).

2. Will the price rise or fall as a result of this curve shift?

a. The price will rise.

b. The price will fall.

3. The video explores how prices tie all goods together. To illustrate this idea, suppose new farming techniques drastically increased the productivity of growing wheat. Given this change, how would the price of wheat change?

a. Increase, because demand would shift to the right.
b. Increase, because supply would shift to the left.

c. Fall, because supply would shift to the right.

d. Fall, because demand would shift to the left.

4. How would the price of cookbooks specializing in recipes using wheat flour change?

a. Increase, because demand would shift to the right.

b. Increase, because supply would shift to the left.

c. Fall, because demand would shift to the right.

d. Fall, because demand would shift to the left.

5. Given your answer to the previous question, what would happen to the price of paper?

a. Increase, because demand would shift to the right.

b. Increase, because supply would shift to the left.

c. Fall, because demand would shift to the right.

d. Fall, because demand would shift to the left.

6. Given your prediction about the change in the price of paper, how would the price of pencils change? (Hint: are paper and pencils complements or substitutes?)

a. Rise, because demand would shift to the right.

b. Rise, because supply would shift to the left.

c. Fall, because demand would shift to the right.

d. Fall, because demand would shift to the left.
Video name: The Great Economic Problem

1. Let’s see if the forces of the market can be as efficient as a benevolent dictator. Since laptop computers are increasingly easy to build and since they allow people to use their computers wherever they like, an all-wise benevolent dictator would probably decree that most people buy laptops rather than desktop computers. This is especially true now that laptops are about as powerful as most desktops. Since it’s become much easier to build better laptop computers in recent years, laptop supply has increased. What does this do to the price of laptops?

   a. The price of laptops increases.

   b. The price of laptops decreases.

   c. An increase in laptop supply will not change its price.

2. Laptop and desktop computers are substitutes. Now that the price of laptops has changed, what does this do to the demand for desktop computers?

   a. The demand for desktops increases

   b. The demand for desktops decreases.

   c. A change in the price of laptops will not affect the price of desktops.

3. How does the change in desktop demand affect the quantity supplied of desktop computers?

   a. The supply of desktops increases.

   b. The supply of desktops decreases.

   c. The supply of desktops is unaffected.

4. Once it became easier to build good laptops, did “invisible hand” forces push more of society’s resources into making laptop and push resources away from making desktops?
a. Yes.

b. No.

5. The process of market creation is most similar to the creation of a country’s

a. Constitution

b. Language

c. Defense strategy

Video name: Information and Incentives

1. If a nation’s government made it impossible for inefficient firms to fail by giving them loans, cash grants, and other bailouts to stay in business, is that nation likely to be poorer or richer as a result of this strategy? (Hint: Steven Davis and John Haltiwanger. 1999. “Gross Job Flows.” In Handbook of Labor Economics (Amsterdam: North–Holland) found than in the United States, 60% of the increase in U.S. manufacturing efficiency was caused by people moving from weak firms to strong firms.)

a. Richer.

b. Poorer.

2. Suppose a new invention comes along that makes it easier and much less expensive to recycle clothing: perhaps a new device about the size of a washing machine can bleach, re-weave, and re-dye cotton fabric to closely imitate any cotton item you see in a fashion magazine. Head into the laundry room, drop in a batch of old clothes, scan in a couple of pages from Vogue, and come back in an hour. If you think of the “market for clothing” as the “market for new clothing,” does this shift the demand or the supply of clothing, and in which direction?

a. The supply of clothing shifts right: a rise in supply.

b. The supply of clothing shifts left: a fall in supply.
c. The demand for clothing shifts right: a rise in demand.

d. The demand for clothing shifts left: a fall in demand.

3. If you instead think of the “market for clothing” as the “market for clothing, whether it’s new or used,” does this shift the demand or supply of clothing, and in which direction?

   a. The supply of clothing shifts right: a rise in supply.

   b. The supply of clothing shifts left: a fall in supply.

   c. The demand for clothing shifts right: a rise in demand.

   d. The demand for clothing shifts left: a fall in demand.

4. What happens to the price of new, unrecycled clothing?

   a. The price of new clothing increases.

   b. The price of new clothing decreases.

   c. The change in price direction depends on the size of the supply curve’s shift.

   d. The price of new clothing will not change.

5. After this invention, will society’s scarce productive resources (machines, workers, retail space) flow toward the “new clothing” sector or away from it? (Note: You may think this theoretical question is fanciful but three-dimensional printers, which can create plastic or plaster prototypes of small items such as toys, cups, etc., have fallen dramatically in price. Every day, you’re getting just a bit closer to having your own personal Star Trek replicator.)

   a. Resources will flow toward the new clothing sector.

   b. Resources will flow away from the new clothing sector.

   c. Resource flows will remain unchanged.
1. Sometimes speculators get it wrong. In the months before the Persian Gulf War, speculators drove up the price of oil: The average price in October 1990 was $36 per barrel, more than double its price in 1988. Oil speculators, like many people around the world, expected the Gulf War to last for months, disrupting the oil supply throughout the Gulf region. Thus, speculators either bought oil on the open market (almost always at the high speculative price) or they already owned oil and kept it in storage. Either way, their plan was the same: to sell it in the future, when prices might even be higher. As it turned out, the war was swift: After one month of massive aerial bombardment of Iraqi troops and a 100-hour ground war, then President George H. W. Bush declared a cessation of hostilities. Despite the fact that Saddam Hussein set fire to many of Kuwait’s oil fields, the price of oil plummeted to about $20 per barrel, a price at which it remained for years. How much money did speculators lose or make on each barrel?

a. Speculators made a profit of $16 per barrel.
b. Speculators lost $16 per barrel.
c. Most oil speculators broke even.

2. When speculators sold their stored oil in the months after the war, did this massive resale tend to increase the price of oil or decrease it?

a. The resale increased the price of oil.
b. The resale decreased the price of oil.

3. In 1980, University of Maryland, Julian Simon bet Stanford entomologist Paul Ehrlich that the price of any five metals of Ehrlich’s choosing would fall over 10 years. Ehrlich believed that resources would become scarcer over time as the population grew, while Simon believed that people would find good substitutes, just as earlier people developed iron as a substitute for scarce bronze. The price of all five metals that Ehrlich chose (nickel, tin, tungsten, chromium, and copper) fell over the next 10 years and Simon won the bet. Ehrlich, an honorable man, sent a check in the appropriate amount to Simon. What does the falling price tell us about the relative scarcity of these metals?

a. The falling price indicates that the metals are scarcer than what they were before.
b. The falling price indicates that the metals are less scarce than what they were before.

c. The falling price tells us nothing about scarcity.

4. Which of the following could not have caused the shift?

a. Scientists developed substitutes for the minerals.

b. The demand for the minerals increased.

C. The supply of the minerals increased.

5. Choose the pair that best expresses a relationship similar to that in the original pair. *Arbitrager:* Region ::

a. Speculator: Market

b. Speculator: Time

c. Speculator: Forecast

d. Speculator: Bet

**Video name:** Prediction Markets

1. You manage a department store in Florida, and one winter you read in the newspaper that orange juice futures have fallen dramatically in price. Should your store stock up on more sweaters than usual, or should your store stock up on more Bermuda shorts?

a. Sweaters

b. Bermuda shorts
2. Andy enters in a futures contract allowing him to sell 5,000 troy ounces of gold at $1,000 per ounce in 36 months. After that time passes, the market price of gold is $950 per troy ounce. How much did Andy make or lose?
   
a. Andy made $50.
   
b. Andy lost $50.
   
c. Andy made $250,000.
   
d. Andy lost $250,000.

3. Two major-party presidential candidates are running against each other in the 2016 election. The Democratic Party candidate promises more money for corn-based ethanol research and the Republican Party candidate promises more money for defense contractors. In the weeks before the election, defense stocks take a nosedive. Who is probably going to win the election: the pro-ethanol candidate or the pro-defense spending candidate?
   
a. Pro-ethanol research, or the Democratic Party, candidate
   
b. Pro-defense spending, or the Republican Party, candidate
Price Ceilings and Price Floors

Video name: Price Ceilings

1. How does a free market eliminate a shortage?
   
a. By letting the price fall.
   
b. By letting the price rise.
   
c. By creating quotas.
   
d. By creating a price ceiling.

2. Business leaders often say that there is a “shortage” of skilled workers, and so they argue that immigrants need to be brought in to do these jobs. For example, an AP article entitled “New York farmers fear a shortage of skilled workers,” pointing out that a special U.S. visa program, the H-2A program, “allows employers to hire foreign workers temporarily if they show that they were not able to find U.S. workers for the jobs.” (Source: Thompson, Carolyn. May 13, 2008. N.Y. farmers fear a shortage of skilled workers Associated Press.) How do unregulated markets cure a “labor shortage” when there are no immigrants to boost the labor supply?
   
a. Let the price of labor increase.
   
b. Let the price of labor decrease.
   
c. Contract production.
   
d. Expand production.

3. In the town of Freedonia, the government declares that all street parking must be free: There can be no parking meters. In an almost identical town of Meterville, parking costs $5 per hour (or $1.25 per 15 minutes). Where will it be easier to find parking: in Freedonia or Meterville?
   
a. Freedonia
   
b. Meterville
c. Indeterminate with the given information.

4. One town will tend to attract shoppers who hate driving around looking for parking. Which one?
   a. Freedonia
   b. Meterville

5. Which town will likely attract shoppers with higher incomes?
   a. Freedonia
   b. Meterville

Video name: Price Ceilings: Shortages and Quality Reduction

Suppose that the quantity demanded and quantity supplied in the market for milk is as follows:

<table>
<thead>
<tr>
<th>Price per Gallon</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5</td>
<td>1000</td>
<td>5000</td>
</tr>
<tr>
<td>$4</td>
<td>2000</td>
<td>4500</td>
</tr>
<tr>
<td>$3</td>
<td>3500</td>
<td>3500</td>
</tr>
<tr>
<td>$2</td>
<td>4100</td>
<td>2000</td>
</tr>
<tr>
<td>$1</td>
<td>6000</td>
<td>1000</td>
</tr>
</tbody>
</table>
1. What is the equilibrium price and quantity of milk?

a. price: $4; quantity: 4500

b. price: $3; quantity: 3500

c. price: $2, quantity: 2000

d. Indeterminate from the information given.

2. If the government places a price ceiling of $2 on milk, how large will the shortage be?

a. 2300 gallons

b. 2100 gallons

c. 3500 gallons

d. 2000 gallons

3. If a government decides to make health insurance affordable by requiring all health insurance companies to cut their prices by 30%, what will probably happen to the number of people covered by health insurance?

a. More people will be covered because it’s cheaper and more people can now afford it.

b. Fewer people will be covered because health insurance companies will supply less.

c. The number of insured will not change.

d. Indeterminate with the given information.

4. If the government forced all bread manufacturers to sell their products at a “fair price” that was half the current, free-market price, what would happen to the quantity supplied of bread?

a. quantity supplied decreases.
b. quantity supplied increases.

c. Indeterminate with the given information.

5. With these price controls on bread, would you expect bread quality to rise or fall?

a. Quality rises

b. Quality falls

c. Indeterminate with the given information.

Video name: *Price Ceilings: Lines and Search Costs*

1. When a price ceiling is in place keeping the price below the market price, what's larger: quantity demanded or quantity supplied?

a. Quantity demanded.

b. Quantity supplied.

c. Indeterminate with the given information.

d. Neither.

Suppose that the market for coats can be described as follows:

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded (millions)</th>
<th>Quantity Supplied (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$120</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>$100</td>
<td>18</td>
<td>18</td>
</tr>
</tbody>
</table>
2. What is the equilibrium price of coats?
   a. $120
   b. $100
   c. $80
   d. $60

3. Suppose the government sets a price ceiling of $80. How large will the shortage be?
   a. 5 million coats
   b. 4 million coats
   c. 3 million coats
   d. There is no shortage

4. Suppose again that the government sets a price ceiling of $80 and that people line up to get this good. For how long will people wait in line to obtain a coat if they value their time at $10 an hour?
   a. 2 hours
   b. 3 hours
   c. 4 hours
   d. Indeterminate from the given information.
5. **Between 2000 and 2008, the price of oil increased from $30 per barrel to $140 per barrel, and the price of gasoline in the United States rose from about $1.50 per gallon to over $4.00 per gallon. Unlike in the 1970s when oil prices spiked, there were no long lines outside gas stations. Why?**

a. Government intervened to prevent lines.

b. Government intervened to enact gasoline rations.

c. There was no price control on gasoline at the time.

6. **Price controls distribute resources in many unintended ways. In the following cases below, who will probably spend more time waiting in line to get scarce, price-controlled goods? Choose one from each pair:**

a. Working people

b. Retired people

7. **Choose one from each pair:**

a. Fast-food employees who earn $8 per hour

b. Lawyers who charge $800 per hour

8. **Choose one from each pair:**

a. People with desk jobs

b. People who can disappear for a couple of hours during the day

9. **Which job exists in part because time-sensitive wealthy individuals want to pay someone else to wait in line for them?**
a. Fast food employees
b. Ticket scalpers
c. Construction workers
d. Truck drivers

Video name: **Price Ceilings: Deadweight Loss**

1. During a crisis such as Hurricane Katrina, governments often make it illegal to raise the price of emergency items like flashlights and bottled water. In practice, this means that these items get sold on a first-come, first-served basis. If a person has a flashlight that she values at $5, but its price on the black market is $40, what gains from trade are lost if the government shuts down the black market?

   a. $45
   b. $40
   c. $35
   d. $30
   e. Indeterminate with the given information.

2. When will entrepreneurs be more likely to fill up their pickup trucks with flashlights and drive into a disaster area: when they can sell their flashlights for $5 each or when they can sell them for $40 each?

   a. $5
   b. $40
   c. Equal numbers of entrepreneurs will be present at both prices.
3. In the late 1990s, the city of Santa Monica, California, made it illegal for banks to charge people ATM fees. As you probably know, it’s almost always free to use your own bank’s ATMs, but there’s usually a fee charged when you use another bank’s ATM. (Source: The War on ATM Fees, Time, November 29, 1999). As soon as Santa Monica passed this law, Bank of America stopped allowing customers from other banks to use their ATMs: In bank jargon, B of A banned “out-of-network” ATM usage. In fact, this ban only lasted for a few days, after which a judge allowed banks to continue to charge fees while awaiting a full court hearing on the issue. Eventually, the court declared the fee ban illegal under federal law. But let’s imagine the effect of a full ban on out-of-network fees. Calculate the exact amount of producer and consumer surplus in the out-of-network ATM market in Santa Monica after the ban. How large is consumer surplus?

a. 10  
b. 0  
c. 15  
d. Indeterminate with the given information.

4. Suppose the government forced all bread manufacturers to sell their products at a “fair price” that was half the current, free-market price. To keep it simple, assume that people must wait in line to get bread at the controlled price. Would consumer surplus rise, fall, or can’t you tell with the information given?

a. consumer surplus increases.  
b. consumer surplus decreases.  
c. Indeterminate with the given information.

Video name: Price Ceilings: Misallocation of Resources

1. The Canadian government has wage controls for medical doctors. To keep things simple, let’s assume that they set one wage for all doctors: $100,000 per year. It takes about 6 years to become a general practitioner or a pediatrician, but it takes about 8 or 9 years to become a specialist like a gynecologist, surgeon, or ophthalmologist. What kind of doctor would you want to become under this system? (Note: The actual Canadian system does allow a specialist to earn a bit more than general practitioners, but the difference isn’t big enough to matter.)
2. Antibiotics are often given to people with colds (even though they are not useful for that purpose), but they are also used to treat life-threatening infections. If there was a price control on antibiotics, what do you think would happen to the allocation of antibiotics across these two uses?

a. It would go to those who need it most.
b. It would go to those who need it least.
c. It would go to a mix of the two.

Video name: Price Ceilings: Rent Controls

1. A review of the jargon: Is rent control a “price ceiling” or a “price floor?”

a. price ceiling
b. price floor

c. Discriminate more against applicants

d. Allow more renters per room

3. Harry is lucky enough to get a rent-controlled apartment for $300 per month. The market rent on such an apartment is $3,000 per month. Harry himself values the apartment at $2,000 per
month, and he’d be quite happy with a regular, $2,000 per month New York apartment. If he stays in the apartment, how much consumer surplus does he enjoy?

a. $1,700 per month
b. $2,100 per month
c. $2,400 per month
d. Indeterminate given the information.

4. If he illegally subleases his apartment to Sally on the black market for $2,500 per month and instead rents a $2,000 apartment, is he better off or worse off than if he obeyed the law?

a. Better off
b. Worse off
c. Indeterminate given the information.

Video name: Rent Control in Mumbai

1. Which of the following is NOT a consequence of rent controls in Mumbai?

a. There is a shortage of rental housing.
b. Low cost rentals have incentivized migration to Mumbai, leading to overcrowding.
c. Very few new and affordable housing is being developed.
d. Already existing apartment buildings are crumbling from lack of maintenance.
e. All of the above are consequences of rent controls in Mumbai.

2. How are rent controls related to building collapses in India?

a. Low rent means landlords may not take in enough revenue to fund repairs.
b. Social unrest stemming from rent control has led Mumbai’s poor to vandalize apartment buildings.

c. Scarce housing has incentivized the city to leave standing very old buildings that should be demolished for safety.

d. All of the above.

3. Which of the following partially accounts for the scarcity of low-price real estate in Mumbai?

   a. Resentment between renters and landlords has led landlords to find ways to increase prices.

   b. Political special interest groups put pressure on government to increase the price of real estate.

   c. A lengthy and costly approval process means developers must offer high-price homes in order to make a profit.

   d. Recent building collapses have scared away developers from new building projects in Mumbai.

Video name: **Price Floors: The Minimum Wage**

1. A review of the jargon: Is the minimum wage a “price ceiling” or a “price floor?”

   a. price ceiling

   b. price floor

2. Who is impacted most by a change in the minimum wage?

   a. unionized workers

   b. senior citizens

   c. stay-at-home parents
3. Imagine that you can hire four low-skilled workers to move dirt with shovels at $5 an hour, or you can hire one skilled worker at $24 an hour to move the same amount of dirt with a skid loader. Who will you hire if the minimum wage increases from $5 per hour to $6.50 per hour?

a. 4 low-skilled workers
b. 1 high-skilled worker

4. Suppose you’re doing some history research on shoe production in ancient Rome, during the reign of the famous Emperor Diocletian. Your records tell you how many shoes were produced each year in the Roman Empire, but it doesn’t tell you the price of shoes. You find a document that says that in the year 301, Emperor Diocletian issued an “edict on prices,” but you don’t know whether he imposed price ceilings or price floors—your Latin is a little rusty. However, you can clearly tell from the documents that the number of shoes actually sold in markets fell dramatically, and that both potential shoe sellers and potential shoe buyers were unhappy with the edict. With the information given, can you tell whether Diocletian imposed a ceiling or a floor? If so, which is it? (Yes, there really was an edict of Diocletian, and Wikipedia has excellent coverage of ancient Roman history.)

a. Price ceiling
b. Price floor
c. Neither- it was a government shoe ration.
d. Indeterminate with the given information.

Video name: Price Floors: Airline Fares

1. In the 1970s, AirCal and Pacific Southwest Airlines flew only within California. As we mentioned, the federal price floors didn’t apply to flights within just one state. A major route for these airlines was flying from San Francisco to Los Angeles, a distance of 350 miles. This is about the same distance as from Chicago, Illinois, to Cleveland, Ohio. Which flight had a nicer meal?
a. San Francisco-to-Los Angeles flight

b. Chicago-to-Cleveland flight

2. Airline regulation of the 1970s produced a similar result to which of the following government interventions?

a. Rent control laws

b. Minimum wage laws

c. Communism

d. The Affordable Care Act

3. President Jimmy Carter didn’t just deregulate airline prices. He also deregulated much of the trucking industry, as well. Trucks carry almost all of the consumer goods that you purchase, so almost every time you purchase something, you’re paying money to a trucking company. Based on what happened in the airline industry after prices were deregulated, what do you think happened in the trucking industry after deregulation? You can find some answers here: http://www.econlib.org/Library/Enc/TruckingDeregulation.html. For another look that is critical of trucking deregulation, but comes to basically the same answers, see Michael Belzer, 2000. Sweatshops on Wheels: Winners and Losers in Trucking Deregulation, Thousand Oaks, CA: SAGE.

a. Trucking salaries increased

b. Trucking salaries decreased

c. Trucking companies increased

d. Trucking companies decreased

e. B and C

4. Who do you think asked Congress and the president to keep price floors for trucking?
a. consumer groups
b. retail shops like Wal-Mart
c. Republicans
d. trucking companies
e. A and D

**Video name:** Why Do Governments Enact Price Controls?

1. *If a government decided to impose price controls on gasoline, what could it do to avoid the time wasted waiting in lines? Though there are several solutions to this problem, only one of the options below is correct.*

   a. Restrict gasoline consumption to high-value uses.
   
   b. Ban lines for gasoline.
   
   c. Create gasoline rations.
   
   d. Ban black markets for gasoline.

**Video name:** Price Controls and Communism

1. *On average, should we expect better customer service from a capitalist or a Communist employee?*

   a. Capitalist
   
   b. Communist
Trade

Video name: The Big Ideas of Trade

1. How is international trade similar to domestic trade?

   a. International trade makes people better off when preferences differ.

   b. International trade increases productivity through specialization and the division of knowledge.

   c. Trade increases productivity through comparative advantage.

   d. A and B

   e. All of the above

2. Many people will tell you that, whenever possible, you should always buy U.S.-made goods. If this argument were taken to its natural conclusion, where should you buy all of your goods from?

   a. Your state

   b. Your county

   c. Your neighborhood

   d. Yourself

Video name: Comparative Advantage

1. True or False: Every country has at least one comparative advantage in something.

   a. True

   b. False

2. The cost of the next most valuable opportunity is known as a
a. Sunk cost

b. Opportunity cost

c. Comparative advantage

d. Absolute advantage

**Video name:** Another Look at Comparative Advantage

1. What is a source of comparative advantage?
   a. climate
   b. institutions
   c. answer choices a & b
   d. None of the above.

2. In 30 minutes, Kana can either make miso soup or she can clean the kitchen. In 15 minutes, Mitchell can make miso soup; it takes Mitchell an hour to clean the kitchen.
   a. Kana has the absolute and comparative advantage at making miso soup.
   b. Mitchell has the absolute and comparative advantage at making miso soup.
   c. Kana has the absolute and comparative advantage at cleaning the kitchen.
   d. Mitchell has the absolute and comparative advantage at cleaning the kitchen.
   e. A & D
   f. B & C
3. In one hour, Ethan can bake 20 cookies or lay the drywall for two rooms. In one hour, Sienna can bake 100 cookies or lay the drywall for three rooms.

a. Ethan has the absolute and comparative advantage at baking cookies.

b. Sienna has the absolute and comparative advantage at baking cookies.

c. Ethan has the absolute and comparative advantage at laying drywall.

d. Sienna has the absolute and comparative advantage at laying drywall.

e. A & D

f. B & C

g. None of the above.

4. Data can write 12 excellent poems per day or solve 100 difficult physics problems per day. Riker can write one excellent poem per day or solve 0.5 difficult physics problems per day.

a. Data has the absolute and comparative advantage at writing poems.

b. Riker has the absolute and comparative advantage at writing poems.

c. Data has the absolute and comparative advantage at solving physics problems.

d. Riker has the absolute and comparative advantage at solving physics problems.

e. A & D

f. B & C

g. None of the above.

**Video name:** Comparative Advantage Homework

*Use the information below to answer questions 1-7. According to the Wall Street Journal (August 30, 2007, “In the Balance”), it takes about 30 hours to assemble a vehicle in the United States. Let’s use that fact plus a few invented numbers to sum up the global division of labor in auto*
manufacturing. In international economics, “North” is shorthand for the high-tech developed countries of East Asia, North America, and Western Europe, while “South” is shorthand for the rest of the world. Let’s use that shorthand here.

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Hours to Make One High-Quality Car</th>
<th>Number of Hours to Make One Low-Quality Car</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>South</td>
<td>60</td>
<td>30</td>
</tr>
</tbody>
</table>

1. Which region has an absolute advantage at producing high-quality cars?
   a. North
   b. South

2. Which country has an absolute advantage at producing low-quality cars?
   a. North
   b. South

3. Which country has a comparative advantage for producing low-quality cars?
   a. North
   b. South

4. Which country has a comparative advantage for producing high-quality cars?
   a. North
   b. South
5. There are 1 million hours of labor available for making cars in the North, and another 1 million hours of labor available for making cars in the South. In a no-trade world, let’s assume that two-thirds of the auto industry labor in each region is used to make high-quality cars and one-third is used to make low-quality cars. What will be the global output of low-quality cars?

a. 17,253
b. 22,222
c. 11,111
d. 27,778
e. None of the above.

6. Now, allow specialization. If each region completely specializes in the type of car in which it holds the comparative advantage, what will be the global output of low-quality cars? *

a. 11,111
b. 22,222
c. 33,333
d. 44,444
e. None of the above.

Video name: Tariffs and Protectionism

1. The Japanese people currently pay about four times the world price for rice because of trade barriers. Who is more likely to make a greater effort lobbying for or against a reduction in trade barriers?

b. Japanese rice farmers.
2. The supply curve for rice in Japan slopes upward, just like any normal supply curve. If Japan eliminated its trade barriers to rice, what would happen to the number of workers employed in the rice-producing industry in Japan: Would it rise or fall?

a. Rise
b. Fall

3. Spend some time driving in Detroit, MI—the Motor City—and you’re sure to see bumper stickers with messages like “Buy American” or “Out of a job yet? Keep buying foreign!” or “Hungry? Eat your foreign car!” Explain these bumper stickers in light of what you’ve learned: Who is hurt most by imported automobiles?

a. American (domestic) consumers
b. American (domestic) car manufacturers
c. Foreign consumers
d. Foreign car manufacturers

4. Trade restrictions on sugar cause U.S. consumers to pay more than twice the going world price for sugar. However, you are very unlikely to ever encounter bumper stickers that say things like “Out of money yet? Keep taxing foreign sugar!” or “Hungry? It’s probably because domestic sugar is so expensive!” Why?

a. Sugar is unhealthy and therefore it’s unpopular to lower its cost.
b. The sugar tariff benefits more Americans than it hurts.
c. The price increase of sugar per person is small.
d. None of the above.
5. Sugar farmers in Florida who use unusually large amounts of fertilizer to produce their crops do so because their land isn’t all that great for sugar production. If we translate this into the language of the supply curve, where would these sugar farmers be on the supply curve?

a. Lower-left  
b. Upper-right  
c. At equilibrium price  
d. Indeterminate with the given information.

6. There are three conditions that explain why a free market is efficient: 1. The supply of goods is sold by the sellers with the lowest cost. 2. There are no unexploited gains or wasteful trades. 3. The supply of goods is purchased by the buyers that place the highest value on the goods. Which condition or conditions cease to hold in the case of a tariff on imported goods?

a. 1 only  
b. 2 only  
c. 3 only  
d. A and B only.

7. If the United States were to eliminate a tariff on, say, Mexican shirts thereby lowering its cost, which product might be purchased more by Americans?

a. computer  
b. toothpaste  
c. pants  
d. All of the above.
1. Some people argue for protectionism by pointing out that other countries with whom we trade engage in “unfair trade practices,” and that we should retaliate with our own protectionist measures. One such policy is the policy of some countries to subsidize exporting industries. India, for example, subsidizes its steel industry. Who is hurt by this subsidy?

a. U.S. steel producers
b. U.S. steel consumers
c. Indian steel producers
d. A & C
Externalities

Video name: An Introduction to Externalities

1. The price you pay for an iTunes download
   a. private costs
   b. external costs
   c. private benefits
   d. external benefits

2. The benefit your neighbor receives from hearing you play your pleasant music
   a. private costs
   b. external costs
   c. private benefits
   d. external benefits

3. The annoyance of your neighbor because she doesn’t like your achingly conventional music
   a. private costs
   b. external costs
   c. private benefits
   d. external benefits

4. The pleasure you receive from listening to your iTunes download
   a. private costs
b. external costs

c. private benefits

d. external benefits

5. The price you pay for a security system for your home

a. private costs

b. external costs

c. private benefits

d. external benefits

6. The safety you enjoy as a result of having the security system

a. private costs

b. external costs

c. private benefits

d. external benefits

7. The crime that is more likely to occur to your neighbor once a criminal sees a “Protected by alarm” sticker on your window.

a. private costs

b. external costs

c. private benefits

d. external benefits
8. The extra safety your neighbor might experience because criminals tend to stay away from neighborhoods that have a lot of burglar alarms

a. private costs
b. external costs
c. private benefits
d. external benefits

9. Cultural influences often create externalities, for good and ill. A happy movie might make people smile more, which improves the lives of people who don’t see the movie. A new fashion trend for tight-fitting clothing might hurt the body image of people who think they won’t look good in the new trendy clothing. Let’s consider the market for one cultural good that unrealistically raises expectations about the opposite sex: the romance novel. In romance novels, men are dangerous yet safe, wealthy yet never at work, they ride high-speed motorcycles yet never get in terrible accidents, they look fantastic even though they never waste endless hours at the gym, and so on. (Of course, advertising that focuses on sexy female models may also unrealistically raise expectations about the opposite sex so feel free to change our example as you see best.) Romance novels impose an external cost on men, who have to try to live up to these unrealistic expectations. Suppose the government taxed the romance novel to reduce the externality. How should the government spend the money?

a. Efficiently.
b. Subsidizing programs encouraging male self-esteem.
c. Subsidizing books including male protagonists who are overweight and seriously flawed.
d. B & C.
e. None of the above.

10. When we tax goods with external costs, this always creates
a. a price ceiling.

b. deadweight loss.

c. a price floor.

d. None of the above.

11. Which of the following job is attempting to correct for an externality?

a. tarot card reader

b. ombudsmen

c. stock trader

d. homeowner association

**Video name:** External Benefits

1. Which action would likely reduce the undersupply of people who get flu shots?

a. Pay people to get a flu shot

b. Offer the flu shot in more locations

c. Publicly recognize people for getting a flu shot

d. A & C

e. All of the above.

*For the following six questions, determine whether there is an external benefit or cost and estimate its size. Finally, decide between a tax or a subsidy as a simple way to compensate for the externality.*
2. Scenario 1: In the market for automobiles, the private benefit of one more small SUV is $20,000 and the social cost of one more small SUV is $30,000. Is this an external cost or an external benefit?

a. External cost
b. External benefit
c. Neither

3. What is the size of the externality?

a. -30,000
b. -10,000
c. 30,000
d. 10,000

4. Would a tax or a subsidy be more appropriate for this externality?

a. Tax
b. Subsidy
c. Neither

5. Scenario 2: In the market for really good ideas, ideas that will dramatically change the world for the better, the private benefit of one more good idea is $1M. The marginal social benefit is $100M. Is this an external cost or an external benefit?

a. External cost
b. External benefit
c. Neither
6. What is the size of the externality?

a. -100,000,000

b. -99,000,000

c. 100,000,000

d. 99,000,000

7. Would a tax or a subsidy be more appropriate for this externality?

a. tax

b. subsidy

c. neither

8. Economists have found that increasing the proportion of girls in primary and secondary school leads to significant improvement in students’ cognitive outcomes (Victor Lavy and Analia Schlosser. 2007. “Mechanisms and Impacts of Gender Peer Effects at School,” NBER Working Paper 13292). One key channel seems to be that on average boys create more trouble in class, which makes it harder for everyone to learn. In newspaper English, we’d say that “boys are a tax on every child’s education.” Do girls in a classroom provide external costs or benefits?

a. External costs

b. External benefits

c. Neither

9. Fruit farmers pay beekeepers for their honeybees’ pollination services. Honeybees provide an external benefit to fruit farmers. However, fruits provide an external benefit to the beekeepers because their honeybees need fruits. Which external benefit is larger: honeybees’ external benefit to fruit farmers and fruits’ external benefit to beekeepers?
a. Honeybees’ external benefit to fruit farmers is larger

b. Fruits’ external benefit to beekeepers is larger

c. The external benefits are the same size.

d. Indeterminate from the given information.

**Video name: Command and Control Solutions**

1. Given what you’ve learned about externalities, should human-caused global warming be completely stopped?

   a. Yes

   b. No

A government is deciding between command and control solutions versus tax and subsidy solutions to solve an externality problem.

2. Suppose that whales are threatened with extinction because a large number of people like to eat whale meat. Governments are torn between banning all whaling except for certain religious ceremonies, and heavily taxing all whale meat. Assume there are only a few countries in the world who consume whale meat, and that they have fairly efficient governments.

   a. Ban the eating of whale meat.

   b. Tax the eating of whale meat.

   c. Subsidize the eating of whale meat.

   d. None of the above.

3. LoJack is an example of a vehicle tracking system designed to help police recover stolen vehicles. Steve Levitt found evidence that Lojack and other vehicle tracking devices create a positive externality of decreasing all car thefts because car thieves do not know which cars have Lojack installed, making them more hesitant to break into any car.
a. Mandate vehicle tracking devices be installed in all cars.

b. Subsidize purchase of vehicle tracking devices.

c. Tax purchase of vehicle tracking devices.

**Video name: The Coase Theorem**

1. Consider a factory, located in the middle of nowhere, producing a nasty smell. As long as no one is around to experience the unpleasant odor, what type of externality is produced?

   a. Negative externality

   b. Positive externality

   c. Indeterminate from the given information.

   d. None of the above.

2. Suppose that a family moves in next door to this smelly factory. Who is causing the externalities problem?

   a. The factory.

   b. The family.

   c. A & B

   d. None of the above.

3. Suppose that the family clearly possesses the right to a pleasant-smelling environment. What could happen?

   a. The factory stops producing the bad smell.

   b. The factory pays the family for the right to continue the bad smell.
c. The factory pays the family to move.

e. All of the above.

For the following four questions, in which cases will the Coase theorem’s assumptions likely to be true? (In other words, when will the parties be likely to strike an efficient bargain?)

4. My neighbor wants me to cut down an ugly shrub in my front yard. The ugly shrub, of course, imposes an external cost on him and on his property value.

a. Yay, Coase.

b. Not this time, Coase.

5. My neighbors all would love for me to get that broken-down Willies Jeep off my front lawn. It’s been years now, after all. And would it be too much for me to paint the house and fill up that 6-foot deep ditch in the front yard? The whole neighborhood is just annoyed.

a. Yes to the Coase.

b. Coase is a no go.

6. A coal-fired electricity plant dumps its leftover hot water into the nearby lake, killing the naturally occurring fish. Thousands of homes line the banks of the lake.

a. Three cheers for Coase.

b. Not going to happen, Coase.

7. A coal-fired electricity plant dumps its leftover hot water into the nearby river, killing the naturally occurring fish downstream. There is one large fishery one-mile downstream affected by this. After that, the water cools enough so it’s not a problem.

a. Coasting to Coase.
b. Not so, Coase.

**Video name:** Trading Pollution

1. An increase in the number of pollution allowances does which of the following:

a. Increases the cost of polluting

b. Decreases the cost of polluting

2. In theory, one reason why tradable pollution allowances are preferable to pollution regulation is because they:

a. Make it more difficult for firms to pollute.

b. Encourage lowest-cost pollution reduction.

c. Decrease government oversight costs.

d. All of the above.

3. If the permits were not tradeable, how would this affect the efficiency of the program?

a. Program efficiency would remain unchanged.

b. Program would resemble other command-and-control programs.

c. Program would no longer be as efficient.

d. B & C

e. Indeterminate with the given information.

**Video name:** A Deeper Look at Tradable Allowances
1. A government is torn between selling annual pollution allowances and setting an annual pollution tax. Unlike in the messy real world, this government is quite certain that it can achieve the same price and quantity either way. It wants to choose the method that will pull in more government tax revenue. Which method is better from a revenue-raising perspective?

a. Pollution allowances.

b. Pollution tax.

c. Revenues will be the same.

d. Indeterminate from the given information.

2. Maxicon is opening a new coal-fired power plant, but the government wants to keep pollution down using tradable pollution permits. If a corrupt government just grants Maxicon all of the pollution permits in the entire nation (even though there are many energy companies), what do we predict will happen to pollution production?

a. Maxicon will pollute much more than it would have if it were not given all of the permits.

b. Pollution permits will not be traded because Maxicon has no incentive to trade with other firms.

c. The firms polluting will likely be those with the highest costs of reducing pollution.

d. A & B

e. None of the above.
Costs and Profit Maximization Under Competition

Video name: Introduction to the Competitive Firm

1. A competitive firm maximizes profit by choosing

   a. Price.
   b. Quantity.
   c. Both price and quantity.
   d. Either price or quantity, but not both.
   e. None of the above.

2. A competitive market has which of the following characteristics?

   a. Lots of small-scale sellers
   b. Lots of small-scale buyers
   c. A product that is similar across sellers
   d. A & C only
   e. All of the above.

3. In a competitive market, sellers sell their product

   a. At the world price.
   b. Just below the world price.
   c. Just above the world price.
   d. At a price dependent on the quantity chosen.
4. On January 27, 2011, the price of Ford Motor Company stock hit an almost 10-year high at $18.79 per share. (Two years prior, in January 2009, Ford stock was trading for about a tenth of that price.) Suppose that on January 27, 2011, you owned 10,000 shares of Ford stock (a small fraction of the almost 3.8 billion shares). Suppose you offered to sell your stock for $18.85 per share, just slightly above the market price. How many shares would you sell?

a. 10,000
b. 7,300
c. 1
d. 0

5. Suppose instead that on January 27, 2011, you wanted to sell your 10,000 shares of Ford stock but you reduced your asking price to $18.75 per share? How many shares would you sell?

a. 10,000
b. 7,300
c. 1
d. 0

6. Given your answer to the previous question, should you sell your shares at $18.75?

a. Yes
b. No

7. Which characteristic below best describes the demand curve that you as an individual seller of Ford stock face?

a. A perfectly elastic demand curve
b. A perfectly inelastic demand curve

c. None of the above.

**Video name:** Maximizing Profit under Competition

1. The economic definition of profit differs from the accounting definition of profit in that the economic definition includes

a. Fixed costs.

b. Variable costs.

c. Opportunity costs.

d. Sunk costs.

e. None of the above.

2. Whenever money is used to purchase capital, interest costs are incurred. Sometimes those costs are explicit—like when Alex borrowed the money from the bank—and sometimes those costs are implicit—like when Tyler had to forgo the interest he could have earned had he left his funds in a savings account. If an economist and accountant calculated Alex and Tyler's costs, for whom would they have identical numbers and for whom would the numbers differ?

a. Economist and accountant would agree on Alex's costs and disagree on Tyler's.

b. Economist and accountant would agree on Tyler's costs and disagree on Alex's.

3. In the aforementioned disagreement on cost of one of the activities, which profession would calculate a larger cost?

a. Economist.

b. Accountant.
4. Which type of cost is dependent on the amount of quantity produced by a firm?
   a. fixed costs
   b. variable costs
   c. sunk costs
   d. none of the above

5. A competitive firm maximizes profit by choosing a level of output where the world price is equal to the firm’s
   a. Marginal revolution.
   b. Marginal revenue.
   c. Marginal cost.
   d. Average cost.
   e. Fixed costs.
   f. Variable costs.

6. True or False: When a competitive firm maximizes profit, profits are always greater than 0.
   a. True
   b. False

Paulette, Camille, and Hortense each own wineries in France. They produce inexpensive, mass-market wines. Over the last few years, such wines sold for 7 euros per bottle; but with a global recession, the price has fallen to 5 euros per bottle. Given the information below, let’s find out which of these three winemakers (if any) should shut down temporarily until times get better.
Remember: Whether or not they shut down, they still have to keep paying fixed costs for at least some time (that’s what makes them “fixed”). To keep things simple, let’s assume that each winemaker has calculated the optimal quantity to produce if they decide to stay in business; your job is simply to figure out if she should produce that amount or just shut down.

<table>
<thead>
<tr>
<th>Winemaker</th>
<th>Fixed Costs</th>
<th>Variable Costs</th>
<th>Recession Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paulette</td>
<td>$50,000</td>
<td>$80,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>Camille</td>
<td>$100,000</td>
<td>$40,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Hortense</td>
<td>$200,000</td>
<td>$250,000</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

7. Which of these women, if any, earned a profit?
   a. Paulette
   b. Camille
   c. Hortense
   d. A & B only.
   e. None of the women earned a profit.

8. Who should stay in business in the short run?
   a. Paulette
   b. Camille
   c. Hortense
   d. A & B only
   e. None of the wineries.
9. For which of these wineries, if any, is \( P > AC \)? (Hint: You don't need to calculate any new numbers to answer this.)

a. Paulette  
b. Camille  
c. Hortense  
d. A & B only  
e. None of the wineries  

10. Fill in the blank: Even if profit is negative, if revenues are ______ variable costs, then it’s best to stay open in the short run.

a. >  
b. <  

11. You’ve been hired as a management consultant to WaffleCo, a maker of generic-brand frozen waffles. They’re each trying to figure out if they should produce a little more output or a little bit less in order to maximize their profits. The firms all have typical marginal cost curves: They rise as the firm produces more. Your staff did all the hard work for you of figuring out the price of the firm’s output is $4 per box and the marginal cost of producing one more unit of output is $2 per box at its current level of output. However, they forgot to collect data on how much the firm is actually producing at the moment. Fortunately, that doesn’t matter. In your final report, you need to decide if the firm should produce more, less, or stay at the current output level. What do you recommend?

a. Produce more.  
b. Produce less.  
c. Stay at the current level of output.
Video name: Maximizing Profit and the Average Cost Curve

1. For a competitive firm supplying wheat, if the world price (P) equals the firm’s min average cost (min AC), then profits will be

   a. greater than 0
   b. less than 0
   c. 0
   d. Indeterminate from the given information.

Given the cost function for Simon, a housepainter in a competitive local market, below, answer the questions that follow. (You may want to calculate average cost.)

<table>
<thead>
<tr>
<th>Number of rooms painted per week</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$100</td>
</tr>
<tr>
<td>1</td>
<td>$120</td>
</tr>
<tr>
<td>2</td>
<td>$125</td>
</tr>
<tr>
<td>3</td>
<td>$145</td>
</tr>
<tr>
<td>4</td>
<td>$200</td>
</tr>
<tr>
<td>5</td>
<td>$300</td>
</tr>
<tr>
<td>6</td>
<td>$460</td>
</tr>
</tbody>
</table>
2. What is the minimum price per room at which Simon would be earning positive economic profit?

a. $62.50  
b. $48.33  
c. $60  
d. $76.67  
e. $35.29

Video name: Entry, Exit, and Supply Curves: Increasing Costs

1. What is the least common cost structure for an industry?

a. Costs decrease as industry output increases.  
b. Costs increase as industry output increases.  
c. Costs stay the same as industry output increases.

2. In the ancient Western world, incense was one of the first commodities transported long distances. It grew only in the south of the Arabian Peninsula (modern-day Yemen, known then as Arabia Felix) and was transported by camel to Alexandria and the Mediterranean civilizations, notably the Roman Republic. As the republic expanded into a richer and larger empire, the demand for incense grew and planters in Arabia added a second and then a third annual crop (though this incense was not as high of a quality). Cultivation also crossed to the Horn of Africa (modern-day Oman) even though such fields were farther away from Rome. The fact that additional annual crops were of lower quality indicates that this industry has

a. Increasing costs.  
b. Decreasing costs.  
c. Constant costs.
d. Indeterminate from the given information.

3. It’s more costly to grow incense in Eastern Africa than in Arabia Felix. Which region would you expect to see more incense grown in?
   a. Eastern Africa
   b. Arabia Felix

**Video name:** Entry, Exit, and Supply Curves: Constant Costs

1. In the long run, constant supply curves are
   a. sloping upwards.
   b. horizontal.
   c. sloping downwards.

2. In the competitive children’s pajama industry, a new government safety regulation raises the average cost of children’s pajamas by $2 per pair. If this is a constant cost industry, then in the long run, what exactly happens to the price of children’s pajamas?
   a. The price of pajamas increases by more than $2
   b. The price of pajamas increases by less than $2
   c. The price of pajamas increases by exactly $2

3. If this is an increasing cost industry instead, will the long-run price of pajamas rise by more than $2 or less? (Hint: The long-run supply curve will be shaped just like an ordinary supply curve. If you treat this like a $2 tax per pair, you’ll get the right answer.)
   a. The price of pajamas increases by more than $2.

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b. The price of pajamas increases by less than $2.

c. The price of pajamas increases by exactly $2.

**Video name:** Entry, Exit, and Supply Curves: Decreasing Costs

1. As Ngoy started hiring more Cambodian refugees to work in his donut shop, this made it more likely that

   a. Competition from other doughnut shop owners would increase.

   b. Ngoy's fixed costs decreased.

   c. Other Cambodians would open donut shops.

2. At this point in the story, what sort of cost industry (constant, increasing, or decreasing) would you consider doughnut shops owned by Cambodians to be?

   a. Constant

   b. Increasing

   c. Decreasing

3. Fast forward 40 years: What kind of cost structure are Californian doughnut shops probably in now?

   a. Constant

   b. Increasing

   c. Decreasing

4. We mentioned that carpet manufacturing looks like a decreasing cost industry. In American homes, carpets are much less popular than they were in the 1960s and 1970s, when “wall-to-wall
carpeting” was fashionable in homes. Suppose that carpeting became even less popular than it is today: What would this fall in demand probably do to the price of carpet in the long run?

a. Increase carpet prices

b. Decrease carpet prices

c. No change to carpet prices
Competition and the Invisible Hand

Video name: Minimization of Total Industry Costs of Production

1. Entrepreneurs shift capital and labor across industries in pursuit of profit. Let’s look at this a little more closely. Suppose there are two industries: a high-profit industry, Industry H, and a low-profit industry, Industry L. Answer the questions below about these two industries. If the two industries have similar costs, then what must be true about prices in the two industries?

a. Prices in Industry H are higher than in Industry L.

b. Prices in Industry H are lower than in Industry L.

c. Indeterminate from the given information.

2. Suppose instead that the prices in the two industries were identical. In this case, what must be true about the costs in the two industries?

a. Costs in Industry H are higher than in Industry L.

b. Costs in Industry H are lower than in Industry L.

c. Indeterminate from the given information.

3. Assuming that prices in the two industries were identical, if labor and capital are moved from Industry L to Industry H, are more units of output lost in Industry L or gained in Industry H?

a. More units of output are lost in Industry L than are gained in Industry H.

b. More units of output are gained in Industry H than are lost in Industry L.

c. Indeterminate from the given information.

4. Suppose that two industries, the pizza industry and the calzone industry, are equally risky, but rates of return on capital investments are 5% in the pizza industry and 8% in the calzone industry.
Which way will capital flow—from the pizza industry to the calzone industry, or from the calzone industry to the pizza industry?

a. From pizza industry to calzone industry.

b. From calzone industry to pizza industry.

c. Indeterminate from the given information.

We’ve claimed that the efficient way to spread out work across firms in the same industry is to set the marginal cost of production to be the same across firms. Let’s see if this works in an example. Consider a competitive market for rolled steel (measured by the ton) with just two firms: SmallCo and BigCo. If we wanted to be more realistic, we could say there were 100 firms like SmallCo and 100 firms like BigCo, but that would just make the math harder without generating any insight. (We’ll also ignore fixed costs of starting up the firms just to make things a little simpler.) The two firms have marginal cost schedules like this:

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Marginal Cost SmallCo</th>
<th>Marginal Cost BigCo</th>
</tr>
</thead>
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<tr>
<td>1</td>
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<tr>
<td>8</td>
<td>$80</td>
<td>$50</td>
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</tbody>
</table>
5. What is the total cost of SmallCo producing 6 units of output?

a. $60
b. $130
c. $150
d. $210
e. $280

6. What is the total cost of BigCo producing 6 units of output?

a. $30
b. $60
c. $90
d. $120
e. $130

7. What would the price have to be in this competitive market for these two firms to produce a total of 11 tons of steel?

a. $30
b. $40
c. $50
d. $60
e. Indeterminate from the given information.
8. What would the total cost be if BigCo were the only firm in the market, and it had to produce 7 tons of rolled steel?

a. $40  
b. $70  
c. $130  
d. $140  
e. $170  

9. What would total cost be if SmallCo and BigCo let the invisible hand divvy up the work between them to produce 7 tons of rolled steel?

a. $20  
b. $30  
c. $70  
d. $90  
e. $130  

10. Would it make sense to shut down the more inefficient of the two firms?

a. Yes  
b. No  

**Video name:** The Balance of Industries and Creative Destruction

1. Let’s review the basic mechanism of the elimination principle with the following questions. When demand rises in Industry X, what happens to profits? Do they rise, fall, or remain unchanged?
a. Rise  
b. Fall  
c. Remain unchanged

2. When that happens, do firms, workers, and capital tend to enter Industry X, or do they tend to leave?
   a. Enter  
   b. Exit  
   c. No changes

3. Does this tend to increase short-run supply in Industry X or reduce it?
   a. Increase  
   b. Reduce

4. In the long run, after this rise in demand, what will profits typically be in Industry X?
   a. Greater than 0  
   b. 0  
   c. Less than 0  
   d. Indeterminate from the given information.
Monopoly

Video name: Maximizing Profit under Monopoly

1. In the textbook, The Applied Theory of Price, D. N. McCloskey refers to the equation \( MR = MC \) as the rule of rational life. Who follows this rule: monopolies, competitive firms, both or neither?

a. Monopolies

b. Competitive firms

c. Both

d. Neither

2. Rapido, the shoe company, is so popular that it has monopoly power. It’s selling 20 million shoes per year, and it’s highly profitable. The marginal cost of making extra shoes is quite low, and it doesn’t change much if they produce more shoes. Rapido’s marketing experts tell the CEO of Rapido that if it decreased prices by 20%, it would sell so many more shoes that profits would rise. If the expert is correct, at its current output, is \( MC = MR \), is \( MC > MR \), or is \( MC < MR \)?

a. \( MC = MR \)

b. \( MC > MR \)

c. \( MC < MR \)

3. If the expert is correct and Rapido’s CEO follows the experts’ advice, will Rapido’s total revenue rise, fall, or be unchanged?

a. Total revenue will rise.

b. Total revenue will fall.

c. Total revenue will remain unchanged.
4. Apollo, another highly profitable shoe company, also has market power. It’s selling 15 million shoes per year, and it faces marginal costs quite similar to Rapido. Apollo’s marketing experts conclude that if they increased prices by 20%, profits would rise. For Apollo, is \( MC = MR \), is \( MC > MR \), or is \( MC < MR \)?

a. \( MC = MR \)

b. \( MC > MR \)

c. \( MC < MR \)

5. When selling e-books, music on iTunes, and downloadable software, the marginal cost of producing and selling one more unit of output is essentially zero: \( MC = 0 \). Let’s think about a monopoly in this kind of market. If the monopolist is doing its best to maximize profits, what will marginal revenue equal at a firm like this?

a. Greater than 0

b. Less than 0

c. 0

d. Indeterminate from the given information.

6. All firms are trying to maximize their profits (\( \text{profit} = TR - TC \)). The rule from the previous question tells us that in the special case where marginal cost is zero, “profit maximization” is equivalent to which of the following statements?

a. “Maximize total revenue”

b. “Minimize total cost”

c. “Minimize average cost”

d. “Maximize average revenue”

7. Which of the following is true when a monopoly is producing the profit-maximizing quantity of output? More than one may be true.
a. Marginal revenue = Average cost
b. Total cost = Total revenue
c. Monopoly Price = Marginal cost
d. Marginal revenue = Marginal cost
e. A & C
f. C & D

8. For the following statements, decide whether it is true or false. When a monopoly is maximizing its profits, price is greater than marginal cost.

a. True
b. False

9. For a monopoly producing a certain amount of output, price is less than marginal revenue. *

a. True
b. False

Video name: Office Hours: Calculating Monopoly Profit

1. Find total profits of the monopolist under the following market conditions:

<table>
<thead>
<tr>
<th>Demand: P=250-4Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed costs = 200</td>
</tr>
<tr>
<td>MC=50</td>
</tr>
</tbody>
</table>

a. 2300
b. 2450
c. 2600
d. 2750
e. 0, this monopolist would earn negative profit and will thus choose not to produce anything.

2. Find the profit maximizing price chosen by the monopolist under the following market conditions:

<table>
<thead>
<tr>
<th>Demand: P=1200-5Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed costs=1000</td>
</tr>
<tr>
<td>Mc=300</td>
</tr>
</tbody>
</table>

   a. 75
   b. 90
   c. 375
   d. 750
   e. 0, this monopolist would earn a negative profit and will thus choose not to produce anything.

3. Find total profits of the monopolist under the following market conditions:

<table>
<thead>
<tr>
<th>Demand: P=120-50Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed costs=500</td>
</tr>
<tr>
<td>Mc=0</td>
</tr>
</tbody>
</table>

   a. 100
   b. 220
   c. 300
   d. 440
   e. 0, this monopolist would earn a negative profit and will thus choose not to produce anything.

Video name: The Monopoly Markup

1. What’s the rule: Monopolists charge a higher markup when demand is highly elastic or when it’s highly inelastic?
   a. Highly elastic
b. Highly inelastic

2. What’s the rule: Monopolists charge a higher markup when customers have many good substitutes or when they have few good substitutes?

   a. Customers have many good substitutes.
   
   b. Customers have few good substitutes.

3. For the following pairs of goods, which producer is more likely to charge a bigger markup?
   
   a. Someone selling new trendy shoes
   
   b. Someone selling ordinary tennis shoes

4. For the following pairs of goods, which producer is more likely to charge a bigger markup?

   a. A movie theater selling popcorn
   
   b. New York City street vendor selling popcorn

5. For the following pairs of goods, which producer is more likely to charge a bigger markup?

   a. A pharmaceutical company selling a new powerful antibiotic
   
   b. A firm selling a new powerful cure for dandruff

Video name: The Costs and Benefits of Monopoly

1. A patent is a government-created monopoly.

   a. True
2. Just based on self-interest, who is more likely to support strong patents on pharmaceuticals: Young people or old people?
   a. Young people
   b. Old people

3. Who is more likely to support strong patent and copyright protection on video games: People who really like old-fashioned videogames or people who want to play the best, most advanced videogames?
   a. Old-fashioned video-gamers
   b. Cutting edge video-gamers

4. It's very difficult to build and operate a new power plant largely because new plants have to comply with a long list of environmental and safety regulations. Compared with a world with fewer such regulations, how do these rules change the average total cost of building and operating a power plant?
   a. Increase average cost
   b. Decrease average cost
   c. Does not affect average cost

5. Do these regulations make it more or less likely that you will build a new power plant?
   a. More likely to build a new power plant
   b. Less likely to build a new power plant
6. Do these regulations increase or decrease the market power of power plants that already exist?

a. Increases market power of existing power plants

b. Decreases market power of existing power plants
**Price Discrimination**

**Video name:** Introduction to Price Discrimination

1. True or False? A business that price discriminates will generally charge some customers more than marginal cost, and it will generally charge other customers less than marginal cost.

   a. True
   
   b. False

2. Two customers, Fred and Lamont, walk into a Grady’s Used Pickups. Who probably has a more inelastic demand for one of Grady’s pickups: people like Lamont, who are good at shopping around, or people like Fred, who know what they like and just buy it?

   a. People like Lamont
   
   b. People like Fred

3. Who probably gets charged more for a Hertz rental car: Someone who reserves a car online weeks before a trip, or someone who walks up to a Hertz counter after he walks off a 4-5 hour airplane flight?

   a. Someone who reserves the car online weeks before a trip
   
   b. Someone who walks up to a Hertz counter after a 4-5 hour plane flight

4. Where will you see more price discrimination: In monopoly-type markets with just a few firms or in competitive markets with many firms?

   a. Monopoly-type markets
   
   b. Competitive markets
5. When both kinds of people, the Convenience Shoppers and the Bargain Shoppers, are shopping at the same Wal-Mart, who is more likely to stick to their prearranged shopping list rather than splurging on something on a whim?

a. Convenience Shoppers
b. Bargain Shoppers

6. Which group does Wal-Mart have monopoly power over?

a. Convenience Shoppers
b. Bargain Shoppers
c. Both
d. Neither

7. Does this mean that Darth Vader really did kill Anakin Skywalker?

a. Yes
b. No
c. It depends on your point of view.

Video name: The Social Welfare of Price Discrimination

1. When arbitrage is easy in a market of would-be price discriminators, who is more likely to get priced out of the market: those with elastic demand or those with inelastic demand?

a. Elastic demanders
b. Inelastic demanders
2. If Congress passed a privacy law making it illegal for colleges to ask for parents’ tax returns, would that tend to help students from high-income families or students from low-income families?

a. Students from high-income families

b. Students from low-income families

3. When will a monopoly create more output: When the government bans price discrimination or when the monopoly is allowed to and can perfectly price discriminate?

a. When the government bans price discrimination

b. When the monopoly can perfectly price discriminate

Video name: Tying

1. Some razors, like Gillette’s Fusion and Venus razors, have disposable heads. The razor comes with an initial pack with a razor handle plus three or four heads; after that, you need to buy refills separately. Where do you think Gillette gets more revenue: By selling the initial pack or by selling the refills?

a. The initial pack

b. The refills

2. The next time you buy a new razor, are you going to spend more time looking at the price of the razor or at the price of the refills?

a. The price of the razor

b. The price of refills

Video name: Bundling
1. Where are you more likely to see businesses “bundling” a lot of goods into one package: In industries with high fixed costs and low marginal costs (like computer games or moviemaking), or in industries with low fixed costs and high marginal costs (like doctor visits, where the doctor’s time is expensive)?

a. High-fixed-cost and low-marginal-cost industries

b. Low-fixed-cost and high-marginal-cost industries

2. Isn’t it surprising that movies, with tickets that cost around $10, often use vastly more economic resources than stage plays where tickets can easily cost $100? Compare, for example, a live stage performance of Shakespeare’s Hamlet with a movie of Hamlet. In which field is the marginal cost of one more showing lower: on stage or on screen?

a. on stage

b. on screen

3. “Bundling” in a movie or stage performance might show up in the form of adding special effects, expensive actors, or fancy costumes: Some customers might not be too interested in an Elizabethan revenge drama, but they show up to see Liam Neeson waving an authentic medieval dagger. Is it better to think of these extra expenses as “fixed costs” or “marginal costs”?

a. fixed costs

b. marginal costs

4. In which setting will it be easier for a business to cover its total costs: In a “bundled” stage production or in a “bundled” movie production?

a. Bundled stage production

b. Bundled movie production
Labor Markets

Video name: The Marginal Product of Labor

1. Determine whether the following statements are true or false. The marginal product of labor is
   a. the amount of extra profit that a firm will earn if it hires one more worker
   b. the amount of extra revenue that a firm will earn if it hires one more worker

2. By definition, a labor supply curve cannot have a negative slope.
   a. True
   b. False

3. State whether you think Joe’s labor supply will tend to increase or decrease as a result of the following change: While in Las Vegas for the weekend, Joe wins a $1 million jackpot.
   a. Joe will work more.
   b. Joe will work less.

One way to think about wages for different jobs is to see it as another application of the law of one price. The basic idea is that the supply of workers will keep adjusting until jobs that need the same kinds of workers earn the same wage. If similar workers earned different wages, then the workers in the low-paid jobs would reduce their labor supply, and the workers in the high-paid jobs would face more competition from those low-paid workers. Let’s look at 100 computer programmers who are trying to decide whether to work for one of two companies: Robotron or Korrexia. To keep things simple, assume that both companies are equally fun to work for, so you don’t need to worry about compensating differentials here (featured in the video devoted to compensating differentials). The marginal product of labor (per additional hour of work) is in the data as follows:
<table>
<thead>
<tr>
<th>Number of programmers per firm</th>
<th>Robotron’s MPL</th>
<th>Korrexia’s MPL</th>
</tr>
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<tbody>
<tr>
<td>10</td>
<td>200</td>
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<td>100</td>
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4. At a wage of $80 per hour, the total demand for workers would be

a. 50 workers
b. 60 workers
c. 70 workers
d. 100 workers
5. The programmers in this town are going to work at one of these two places for sure: Their labor supply is vertical, or in other words perfectly inelastic, with supply = 100. So, what will the equilibrium wage be? Hint: the numbers may not work out exactly—so use your judgment to come up with a good answer.

a. $50 dollars per hour
b. $55 dollars per hour
c. $60 dollars per hour
d. $65 dollars per hour

6. About how many programmers will work at Robotron at this price? Again, use your judgment to come up with a good answer.

a. 55 workers
b. 60 workers
c. 65 workers
d. 70 workers

7. Suppose 50 more programmers come to town. What will the wage be now?

a. $15 per hour
b. $20 per hour
c. $25 per hour
d. $30 per hour

Video name: Human Capital and Signaling
1. The director of human resources at ToyCo is hiring new engineers. She’s got a stack of 250 applications, and she’s going to do a little research. She sits down and does a little cyber-snooping on all 250, and she finds the following (Word to the wise- prospective employers do cyber-snoop!): i. Of the 150 who have Facebook pages, 50 are holding a bottle of beer in their profile photo, and 100 aren’t. ii. Of the 100 who have their own websites, 20 have more than two typos. iii. Of the 150 who have Facebook pages, 25 have at least two friends who have apparently spent time in prison, according to a quick check of public records. Finding (ii) is likely to signal which of the following to the human resources director:

a. the applicant is wild.

b. the applicant sleeps in.

c. the applicant is careless.

d. the applicant is not trustworthy.

2. In each case, is the bad signal 100% correct? For example, is every applicant with three or four typos on their personal website worse than every applicant with an error-free page?

a. Yes

b. No

3. The benefit of having a college education has increased since the 1960s.

a. True

b. False

4. The wage gap between high school graduates and high school dropouts has fallen since the

a. True

b. False
Video name: The Tradeoff Between Fun and Wages

1. Let’s apply the idea of compensating differentials to janitorial jobs. Suppose there are two quite similar restaurants in the same town, Orange Bee’s and the City Inn. Both have the same demand for janitorial labor. But all the janitors in town know that it’s much more fun to work at City Inn. Which restaurant will pay a higher wage for janitors?

a. Orange Bee’s

b. City Inn

c. Both restaurants pay the same wage.

2. Which restaurant will hire more janitors?

a. Orange Bee’s

b. City Inn

c. Both restaurants will hire the same number of janitors

Video name: Compensating Differentials

1. According to the theory of compensating differentials, which low-skilled jobs in the United States will tend to pay the most: The safe jobs or the dangerous jobs?

a. Safe jobs

b. Dangerous jobs

2. The fun jobs or the boring jobs?

a. Fun jobs

b. Boring jobs
3. The dead-end jobs or the first-rung-on-the-ladder jobs?
   a. Dead-end jobs
   b. First-run-on-the-ladder jobs

4. True or False: Compensating differentials is a government program that pays injured workers.
   a. True
   b. False

Video name: Do Unions Raise Wages?

1. The main reason that an immigrant earns more when he moves from Algeria to France is because the French have strong labor unions.
   a. True
   b. False

2. Unions raise the wages and the number of individuals employed in a particular sector of the economy.
   a. True
   b. False

3. Today, unions only exist in the manufacturing sectors of the economy.
   a. True
   b. False
As we saw, unions can raise wages in a sector of the economy by restricting the number of workers in that sector. Let’s see what tends to happen to the workers who don’t get jobs in those favored unionized sectors. Consider a fictitious computer programming industry (table below is the same as a previous question for another video) with 100 workers.

<table>
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</table>

4. In 2084, after decades of complaining about low wages, the programmers at Robotron have a secret-ballot vote and form a union. Their new union bargains for a wage of $80 per hour, and the newly unionized programmers are very excited. How many workers will Robotron hire at the new, higher wage?

a. 40
5. How many Robotron workers just got laid off? First calculate how many workers would have worked at Robotron without a union-imposed minimum wage and compare it to your answer above. Hint: the numbers may not work out exactly for how many workers are employed without a union-imposed minimum wage —so use your judgment to come up with a good answer.

a. 10
b. 15
c. 20
d. 25
e. None

6. A natural choice for the other programmers is to look for work at Korrexia: As before, the remaining workers have perfectly inelastic labor supply, so all 100 workers are going to work at one of the two firms. What’s the wage for the nonunion Korrexia workers?

a. $40
b. $50
c. $60
d. $70
e. $80
7. You might think that one solution is to unionize both firms and lift wages for all the programmers. If the unions negotiate a high-wage contract and unionized wages rise to $110 at both firms, how many of the 100 workers will have jobs?

a. 0
b. 10
c. 20
d. 30
e. 50
Public Goods and the Tragedy of the Commons

Video name: Public Goods and Asteroid Defense

1. What is the logic behind free riding?
   a. My decision to buy or not buy doesn't affect whether I receive the service
   b. It's better to get something for free than have to pay for it
   c. Receiving the service is solely based on the decisions of others
   d. All of the above

2. Which of the following might have a free rider problem?
   a. Mail delivery
   b. A large fireworks display
   c. Space tourism
   d. All of the above

3. We learned that asteroid defense is a public good. Which of the following group(s) of people, if any, would potentially value investment in asteroid defense more than the rest of humankind?
   a. Men
   b. Women
   c. Old people
   d. Young people
   e. A & D only
   f. There is no group that would value asteroid defense more than others.
4. If the world collectively decided to tax the population to invest in asteroid defense, who would be the free riders?

a. Older people who would die before it was built

b. Someone who lives in an underground bunker that is safe from any asteroid hit

c. Poor people who would prefer to not pay the tax and be at risk

d. Future generations

e. All of the above

Video name: A Deeper Look at Public Goods

For each of the following items, decide first if the good is rival or nonrival and then whether it is excludable or non-excludable.

1. Apples

a. Rival, excludable

b. Rival, non-excludable

c. Nonrival, excludable

d. Nonrival, non-excludable

2. The Chinese Language

a. Rival, excludable

b. Rival, non-excludable

c. Nonrival, excludable

d. Nonrival, non-excludable
3. Cable television
a. Rival, excludable
b. Rival, non-excludable
c. Nonrival, excludable
d. Nonrival, non-excludable

4. Farm-raised salmon
a. Rival, excludable
b. Rival, non-excludable
c. Nonrival, excludable
d. Nonrival, non-excludable

5. Yosemite National Park
a. Rival, excludable
b. Rival, non-excludable
c. Nonrival, excludable
d. Nonrival, non-excludable

6. The idea of calculus
a. Rival, excludable
b. Rival, non-excludable
Which of the following are free riders, which are forced riders, and which are just people paying for public goods?

7. In Britain, Alistair pays a tax to support the British Broadcasting Company. He doesn’t own a radio or TV.
   a. Free rider
   b. Forced rider
   c. Paying taxes for public goods

8. Monica pays her local property taxes and state incomes taxes. Police patrol her neighborhood regularly.
   a. Free rider
   b. Forced rider
   c. Paying taxes for public goods

9. In the United States, Sara pays taxes to fund children’s immunizations. She lives out in the forest, has no family, and rarely sees other people.
   a. Free rider
   b. Forced rider
   c. Paying taxes for public goods

10. In Japan, Dave, a tourist from the United States, enjoys the public parks.
a. Free rider
b. Forced rider
c. Paying taxes for public goods

11. True or false: a public good is defined as one produced by the public sector.
   a. True
   b. False

Video name: Club Goods

1. Some media companies (especially in music and movie industries) run ads claiming that downloading or copying media is the same thing as stealing a CD or DVD from a store. Let’s see if this is the case. Is a DVD a rival good?
   a. Yes
   b. No

2. Suppose someone stole a DVD from a retail outlet. Regardless of how that person values the DVD, does the movie company lose any revenue as a result of the theft?
   a. Yes
   b. No

3. Suppose someone illegally downloaded a movie instead of purchasing it. Also suppose that person placed a high value on the movie (they valued it more than the price required to purchase it legally). Does the movie company lose any revenue as a result of the theft?
   a. Yes
4. Suppose someone illegally downloaded a movie instead of purchasing it. Also suppose that
person placed a low value on the movie (they valued it less than the price required to purchase it
legally). Does the movie company lose any revenue as a result of the theft? Why or why not?

a. Yes

b. No

5. Which of the following statements are true?

a. As the technology of home movie entertainment has changed from tapes and discs to digital
files, home viewing of movies has changed from rival to nonrival.

b. Assuming the law is obeyed, as the technology of home movie entertainment has changed
from tapes and discs to digital files, home viewing of movies has changed from excludable to
nonexcludable.

c. A and B

d. None of the above

Video name: The Tragedy of the Commons

1. At some restaurants and grocery stores, you can buy bison burgers made from farm-raised
bison. Is this good news or bad news if we want more bison around?

a. Good news

b. Bad news

2. The nation of Alphaville has been hunting their deer population to extinction. The government
decrees strict limits on the number of hunters, and on the number of rounds of ammunition that
each hunter can take into the hunt. How do you think hunters will respond?
a. Decrease the quality of their ammunition

b. Increase the quality of their weapons

c. Increase the number of times they hunt

d. B & C only

e. All of the above

3. In this video, we learn that chickens and the “chicken of the sea” (tuna) are fundamentally different in terms of population though they are both food. As population and prosperity has increased, the demand for chicken has increased. What happens to the price of chickens as a result?

a. It increases

b. It decreases

c. There is no change

d. Indeterminate from the given information.

4. Because of the rules humans have concerning chickens, what happens to the number of people raising chickens as a result of the price change?

a. It increases

b. It decreases

c. There is no change

d. Indeterminate from the given information.

5. What happens to the number of chickens?
a. It increases
b. It decreases
c. There is no change
d. Indeterminate from the given information.

6. What happens to the price of tuna as population and prosperity increase?
   a. It increases
   b. It decreases
c. There is no change
d. Indeterminate from the given information.

7. Because of the rules humans have concerning tuna, what happens to the number of people harvesting tuna as a result of the price change?
   a. It increases
   b. It decreases
c. There is no change
d. Indeterminate from the given information.

8. What happens to the number of tuna?
   a. It increases
   b. It decreases
c. There is no change
d. Indeterminate from the given information.
Asymmetric Information

Video name: Asymmetric Information and Used Cars

1. For the following two situations, identify whether the scenario was caused by asymmetric information: Unrest in the Middle East causes oil speculators to buy up oil futures, driving gasoline prices higher.

   a. Asymmetric information induced

   b. Not caused by asymmetric information

2. Joanne applies for a job as a part-time manager at a fast-food restaurant. Her MBA makes her overqualified for the job, yet the position goes to someone else who doesn’t have a college degree.

   a. Asymmetric information induced

   b. Not caused by asymmetric information

3. Many states have laws like Virginia’s that give customers the right to keep or inspect parts that are removed by an auto mechanic. Does that help solve an asymmetric information problem?

   a. Yes

   b. No

4. Alex’s band is about to take off, so he goes out and buys a brand new Marshall Tube Head and Cabinet amplifier for the list price of $4,500. As fate would have it, his band immediately breaks up after he uses it only once. (The drummer started dating the bass player’s ex-girlfriend.) He hangs on to it for a year or so in case the drummer and bass player can work out their differences, but it never happens. He finally decides to sell it on Craigslist. Since he know it’s been used only once, and it’s been properly stored for a year, he reasons that it’s still worth close to what he paid for it, so he lists it for $3,800- a 10% discount off the original price. Is it likely that Alex will sell the equipment at this price?
a. Yes
b. No

**Video name:** Asymmetric Information in Health Insurance

1. Which of the following concepts or policies below theoretically reduce the effects of adverse selection in the health insurance market?

   a. Asymmetric information
   
   b. Propitious selection
   
   c. Affordable Care Act’s individual mandate
   
   d. A & C only
   
   e. B & C only

2. Complete the analogy - Carfax: the used car market as _____: the medical insurance market

   a. Affordable Care Act’s individual mandate

   b. Employer-based group health insurance

   c. Medical checkup

   d. A & B only

   e. A, B, & C

3. True or False: The health insurance market mainly suffers from asymmetric information because the doctor has more information about the patient’s health than the patient does.

   a. True
b. False

4. Given the details about the two individuals below and the information from the video, who do you think is more likely to have health insurance? Steve, a single 31 year old male, is a construction manager who rides motorcycles and enjoys speeding. Kristen, a married mother of two kids, is an accountant who is always wearing her seatbelt and is overly cautious while driving.

   a. Steve
   b. Kristen
   c. Neither

5. Given your answer above, is this a case of adverse selection in the health insurance market?

   a. Yes
   b. No

**Video name: Moral Hazard**

1. Identify which of the following situations are caused by moral hazard: Fred lives in an apartment above a restaurant, and his apartment always smells like burgers and fries. He has tried unsuccessfully to get the restaurant owner to remedy the problem.

   a. Caused by moral hazard
   b. Not caused by moral hazard

2. Maria is halfway to work before she realizes that she forgot to lock the back door. Because she has renter’s insurance, she decides it is not worth being late just to go home to lock the door.

   a. Caused by moral hazard
b. Not caused by moral hazard

3. Your friend, Paris, has super-rich parents who gave her an Audi for her 16th birthday party and have lavished her with luxury items throughout her entire life. She tells you that she has never felt the need to get good grades in school or succeed at a job because her parents provide her with everything.

a. Caused by moral hazard

b. Not caused by moral hazard

4. In the car repair market, moral hazard is a problem because

a. The car owner might pay money for a repair or service that was not needed.

b. The car owner might opt not to get a repair that was actually needed for fear of being ripped off.

c. The car owner has more information about the car’s status than the car mechanic.

d. A & B only.

e. B & C only.

f. A, B, & C.

**Video name:** Solutions to Moral Hazard

1. Identify whether the following scenario is meant to reduce moral hazard effects: Your car insurance has a high deductible (the amount that you have to pay out-of-pocket before insurance kicks in).

a. Reduces moral hazard effects.

b. Does not reduce moral hazard effects.
2. True or false: The under-provision of trustworthy third parties, such as Consumer Reports, reviewing products and services is an example of moral hazard.

   a. True

   b. False

3. You’d like to buy a new computer and so you are researching the best one to buy. Amazon reviewers rate a particular computer highly but Consumer Reports does not. Which product review site are you more prone to trust?

   a. Amazon

   b. Consumer Reports

Video name: Signaling

1. True or False: If you were to drop out of college after attending for 3 years and completing 75% of all coursework, you could expect to earn about 75% of the college premium in the labor market.

   a. True

   b. False

2. In the marriage market (yes, it’s a market), which of the following is a signal by one or both people indicating that they are committed to a long-term relationship?

   a. Phil changes his last name to his wife’s when they get married.

   b. Ellen and Pat have dated for 3 years; they celebrate holidays apart with their respective families.

   c. Brad and Constance sign a pre-nuptial agreement before getting married.
3. You really want a particular job as a computer programmer. You think you are the perfect fit for the position and offer to work for much less than the job’s current salary posting. What possible signal did you just send to your prospective employer?

a. You are enthusiastic about this job.

b. You have a lot of good opportunities.

c. You are desperate.

d. A & B only.

e. A & C only.

f. A, B, & C.

g. None of the above.

4. Human-made diamonds, which are just as beautiful and essentially indistinguishable from mined diamonds, are becoming much cheaper to produce. True or False: This new technology making diamond engagement rings much cheaper will be helpful because it will reduce the cost of this very costly commitment signal.

a. True

b. False

5. Peacocks who possess large, colorful tails signal

a. They are healthy.
b. They have good genes.

c. They would make a good mating partner.

d. B & C only

e. A, B, and C

6. If a criminal gets a large tattoo across his face, he is signaling

a. He is a trend-setter.

b. He is probably not planning to get a traditional job.

c. He was in jail for a long time.

d. B & C only

e. A, B, & C
Consumer Choice

Video name: Introduction to Consumer Choice

For the questions below, refer to the following table showing Jenny's Total Utility from eating pizza.

<table>
<thead>
<tr>
<th>Slices of pizza consumed</th>
<th>Total Utility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>35</td>
</tr>
<tr>
<td>3</td>
<td>45</td>
</tr>
<tr>
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<tr>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>3</td>
</tr>
</tbody>
</table>

1. Which slice of pizza provides the greatest marginal utility?
   a. 1
   b. 2
   c. 3
   d. 10

2. Which slice of pizza provides a marginal utility of 1?
   a. 3
   b. 4
c. 5
d. 6
e. 7

3. What is the marginal utility of the 9th slice of pizza?

a. 11
b. 16
c. 0
d. -11
e. -16

Video name: **Budget Constraints**

1. If your budget is $100, the price of a cup of coffee is $5, and the price of pizza is $10, can you afford to buy 10 cups of coffee and 6 pizzas?

a. Yes
b. No

For the following two questions, assume Good X is measured on the x-axis and Good Y is measured on the y-axis.

2. If the price of _________ is 2 and the price of __________ is 4, then the price ratio (or slope of the budget constraint) is 2.

a. Good x, good y
b. Good y, good x
3. A price ratio of 3 means that a consumer is able to trade 1 unit of ________ for 3 units of __________.

a. Good x, good y
b. Good y, good x

4. Suppose the price ratio of two goods is 3/4 and Jason has a budget of $100. If the price of good X increases from 6 to 12, what is the new price ratio?

a. 1/4
b. 1/2
c. 3/4
d. 3/2
e. Cannot be determined from the given information.

5. Suppose the price ratio of two goods is 3/4 and Jason has a budget of $100. If Jason’s budget increases to $150 and the prices of the two goods stay the same, what is the new price ratio?

a. 1/4
b. 1/2
c. 3/4
d. 3/2
e. Cannot be determined from the given information.

Video name: Indifference Curves
For the following two questions, assume Good X is measured on the x-axis and Good Y is measured on the y-axis.

1. A marginal rate of substitution of 3 means that, from the consumer’s point of view, 1 more unit of _______ is as good as 3 more units of _______.
   a. Good X, Good Y
   b. Good Y, Good X

2. A marginal rate of substitution of _____ means that, from the consumer’s point of view, 15 more unit of Good Y is as good as 10 more units of Good X.
   a. 2/3
   b. 1
   c. 1.5
   d. 15

3. True or False. As you move to the right of any indifference map, consumer utility always increases.
   a. True
   b. False

4. Which of the following indifference maps most closely resembles the average consumer’s preference for right and left shoes?
1. Suppose after paying bills and setting aside some money for retirement, Joana has $130 dollars left to spend on just two goods: concerts and books. For simplicity, we’ll assume concert tickets cost $55 and books cost $10. Which of the following combination of goods could possibly be her utility-maximizing bundle?

   a. 3 concert tickets and 2 books
   b. 2 concert tickets and 2 books
   c. 1 concert ticket and 5 books
   d. 1 concert ticket and 10 books

For the following two questions, assume Good X is measured on the x-axis and Good Y is measured on the y-axis.

2. If the price ratio of two goods is 1.5 and the marginal rate of substitution is 2, then the market values _______________ more than the consumer does, and the consumer values _______________ more than the market does.

   a. Good X, Good Y
b. Good Y, Good X

c. Cannot be determined from the given information.

3. In the above example, the consumer ought to buy less of ______________ and more of ________________.

a. Good X, Good Y

b. Good Y, Good X

c. Cannot be determined from the given information.
Bonus Topics

Video name: Office Hours: Game Theory

1. Bob and Al broke their pact and each performed five shows. Which of the following was a result of this behavior?

   a. Attendees paid lower prices for tickets to their show than if Bob and Al would have successfully cooperated.

   b. Attendees paid higher prices for tickets to their show than if Bob and Al would have successfully cooperated.

In the following two scenarios, suppose we replay the Bob and Al scenario with slightly different payoffs.

2. What is the Nash equilibrium of this game? (Remember: Bob’s payoffs are listed first.)

<table>
<thead>
<tr>
<th></th>
<th>Al</th>
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<tr>
<td>Cheat</td>
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<tr>
<td></td>
<td>(3k, 3k)</td>
</tr>
<tr>
<td>Promise</td>
<td>(1k, 15k)</td>
</tr>
</tbody>
</table>

   a. (Cheat, Cheat)

   b. (Cheat, Promise)

   c. (Promise, Cheat)

   d. (Promise, Promise)

3. What is the Nash equilibrium of this game? (Remember: Bob’s payoffs are listed first.)
<table>
<thead>
<tr>
<th></th>
<th>AI</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>(.5k, .5k)</td>
<td>(15k, 1k)</td>
</tr>
<tr>
<td>Bob</td>
<td>Cheat</td>
<td>(1k, 15k)</td>
<td>(16k, 16k)</td>
</tr>
<tr>
<td></td>
<td>Promise</td>
<td>(15k, 1k)</td>
<td>(16k, 16k)</td>
</tr>
</tbody>
</table>

a. (Cheat, Cheat)
b. (Cheat, Promise)
c. (Promise, Cheat)
d. (Promise, Promise)