Efficiency and Social Interest

Topic: Marginal Benefit
Skill: Conceptual
1) All of the following statements about marginal benefit are correct EXCEPT
A) the marginal benefit is the benefit a person receives from consuming one more unit of a good or service.
B) the marginal benefit of a good or service is measured as the maximum amount that a person is willing to pay for one more unit of it.
C) the marginal benefit of a good is equal to zero when resource use is efficient.
D) the marginal benefit of a good decreases as the quantity consumed of the good increases.
Answer: C

Topic: Marginal Benefit
Skill: Recognition
2) Sal likes to eat pizza. The ____ is the maximum amount that Sal is willing to pay for one piece of pizza.
A) efficient price
B) efficient amount
C) marginal benefit
D) marginal cost
Answer: C

Topic: Marginal Benefit
Skill: Conceptual
3) The principle of decreasing marginal benefit means that as the quantity of a good consumed
A) decreases, its marginal benefit decreases.
B) increases, its marginal benefit decreases.
C) increases, its total benefit decreases.
D) None of the above answers is correct.
Answer: B

Topic: Marginal Benefit
Skill: Conceptual
4) Marginal benefit typically
A) increases as more is consumed.
B) remains constant as more is consumed.
C) decreases as more is consumed.
D) increases as marginal costs increase.
Answer: C

Topic: Marginal Cost
Skill: Recognition
5) Marginal cost is the
A) extra benefit that people receive from producing one more unit of a good or service.
B) maximum amount consumers are willing to pay for one more unit of a good or service.
C) opportunity cost of producing one more unit of a good or service.
D) value of the least valuable thing given up to produce one more unit of a good or service.
Answer: C

Topic: Marginal Cost
Skill: Recognition
6) Which of the following represents the “marginal cost” of a soda?
I. The opportunity cost of producing another soda.
II. The minimum price someone is willing to pay for another soda.
III. The number of units of another good, say a pizza, that someone must give up to get another soda.
A) I only.
B) I and II.
C) I and III.
D) II and III.
Answer: C
CHAPTER 5

Topic: Marginal Cost
Skill: Conceptual
7) Marginal cost usually
   A) increases as more is produced.
   B) remains constant as more is produced.
   C) decreases as more is produced.
   D) decreases as marginal benefits decrease.
Answer: A

Topic: Efficiency And Inefficiency
Skill: Conceptual
8) Suppose a country produces only bikes and clothing. The country achieves an efficient allocation of resources when
   A) it can’t produce any more bikes unless it gives up clothing.
   B) it produces equal amount of bikes and clothes.
   C) the marginal benefit of producing a bike equals the marginal cost of producing a bike.
   D) the prices charged for the goods are as low as possible.
Answer: C

Topic: Efficiency And Inefficiency
Skill: Conceptual
9) Which of the following statements can used to describe efficiency?
   I. Efficiently using resources means that producers make the highest profits possible.
   II. Using resources efficiently means that we cannot produce more of one good without producing less of another good that has a higher value.
   III. Resource use is efficient when we produce goods and services that people value most highly.
   A) I only.
   B) I and II.
   C) II and III.
   D) I, II and III.
Answer: C

Topic: Efficiency And Inefficiency
Skill: Conceptual
10) It is efficient to produce an additional shirt if
   A) the marginal benefit of producing the shirt is greater than zero.
   B) the marginal benefit of producing the shirt is zero.
   C) the marginal benefit of producing the shirt is greater than the marginal cost of producing it.
   D) total benefits from producing shirts are maximized.
Answer: C

Topic: Efficiency And Inefficiency
Skill: Conceptual
11) If the marginal benefit of the fifth slice of pizza is greater than the marginal cost of the fifth slice of pizza then the output level is
   A) efficient and more pizza should be produced.
   B) efficient and less pizza should be produced.
   C) inefficient and more pizza should be produced.
   D) inefficient and less pizza should be produced.
Answer: C

Topic: Efficiency And Inefficiency
Skill: Conceptual
12) When the efficient quantity of output is produced
   A) the marginal benefit of the last unit produced is equal to the marginal cost of the last unit produced.
   B) the sum of consumer surplus and producer surplus is maximized.
   C) resources are used in the activities in which they are most highly valued.
   D) All of the above answers are correct.
Answer: D
13) In the above figure, when the quantity equals 400 pretzels,
   A) consumers are willing to pay $2 for the 400th pretzel.
   B) producers are willing to supply 400 pretzels for $3.
   C) producers are willing to supply 400 pretzels for $2.
   D) the marginal benefit is greater than the marginal cost.
   Answer: A

14) The above figure shows that the maximum amount a person is willing to pay for the 400th pretzel
   A) is greater than the marginal cost of the 400th pretzel.
   B) is less than the marginal benefit of the 400th pretzel.
   C) and the marginal benefit of the 400th pretzel are both $2.
   D) is greater than the marginal benefit of the 200th pretzel.
   Answer: C

15) In the above figure, what is the marginal benefit of the four-hundredth pretzel?
   A) $0
   B) $2.00
   C) $3.00
   D) $4.00
   Answer: B

16) In the above figure, what is the marginal cost to the economy of producing the four-hundredth pretzel?
   A) $0
   B) $2.00
   C) $4.00
   D) None of the above answers are correct.
   Answer: C

17) In the above figure, what is the efficient quantity of pretzels to produce each day?
   A) One hundred.
   B) Two hundred.
   C) Three hundred.
   D) Four hundred.
   Answer: C

18) In the above figure, if 300 pretzels are produced
   A) resource use is efficient.
   B) the marginal cost of another pretzel is 300.
   C) the marginal cost is greater than the marginal benefit.
   D) the marginal benefit is greater than the marginal cost.
   Answer: A
19) In the above figure, what is the efficient quantity of hotdogs to produce?
A) 2 thousand per day
B) 4 thousand per day
C) 6 thousand per day
D) The efficient quantity cannot be determined without knowing the PPF for this economy
Answer: B

20) In the above figure, the efficient quantity of magazines to produce per day is
A) 0, because that is where the marginal benefit exceeds the marginal cost by as much as possible.
B) more than 0 and less than 300,000 magazines.
C) 300,000 magazines.
D) more than 300,000 magazines.
Answer: C

21) In the above figure, when the efficient quantity is produced the marginal cost of the last magazine is
A) $1.
B) $3.
C) $5.
D) some amount not given in the above three answers.
Answer: C

22) In the above figure, when the efficient quantity is produced the marginal benefit of the last magazine is
A) $1.
B) $3.
C) $5.
D) some amount not given in the above three answers.
Answer: C
Value, Price, and Consumer Surplus

Topic: Value, Willingness to Pay, and Demand
Skill: Recognition
23) The value of one more unit of a good or service is the
A) marginal benefit.
B) minimum price that people are willing to pay for another unit of the good or service.
C) marginal cost.
D) opportunity cost of producing one more unit of a good or service.
Answer: A

Topic: Value, Willingness to Pay, and Demand
Skill: Recognition
24) The value of a good is the
A) maximum price you are willing to pay for it.
B) price that you actually pay for it.
C) price you actually pay for it minus the maximum you are willing to pay for it.
D) maximum you are willing to pay for it minus the price you actually pay for it.
Answer: A

Topic: Value, Willingness to Pay, and Demand
Skill: Conceptual
25) Sam’s demand curve for pizza
A) lies above her marginal benefit curve for pizza.
B) lies below her marginal benefit curve for pizza.
C) is the same as her marginal benefit curve for pizza.
D) has one point in common with her marginal benefit curve for pizza.
Answer: C

Topic: Value, Willingness to Pay, and Demand
Skill: Conceptual
26) The willingness to pay curve is the same as
A) the demand curve, but not the marginal benefit curve.
B) the demand curve and the marginal benefit curve.
C) the marginal benefit curve, but not the demand curve.
D) neither the marginal benefit curve nor the demand curve.
Answer: B

Topic: Value, Willingness to Pay, and Demand
Skill: Conceptual
27) As we move down along the demand curve for hot dogs,
A) the maximum price that people are willing to pay for hot dogs increases.
B) the value of hot dogs decreases.
C) the marginal cost of hot dogs increases.
D) the consumer surplus of hot dogs increases.
Answer: B

Topic: Consumer Surplus
Skill: Conceptual
28) Consider the market for hot dogs. As long as the marginal benefit of consuming hot dogs is greater than the price of hot dogs,
A) we will receive consumer surplus from eating hot dogs.
B) the price of hot dogs will rise.
C) the value of hot dogs will rise.
D) there is no decreasing marginal benefit of eating hot dogs.
Answer: A

Topic: Consumer Surplus
Skill: Analytical
29) Nick can purchase each milkshake for $2. For the first milkshake purchased Nick is willing to pay $4, for the second milkshake $3, for the third milkshake $2 and for the fourth milkshake $1. What is the value of Nick’s consumer surplus?
A) $2
B) $9
C) $3
D) $10
Answer: C

Topic: Consumer Surplus
Skill: Analytical
30) A used car was recently priced at $20,000.00. Seeing the car, Bobby thought, “It’s nice, but if I have to pay more than $19,500 for this car, then I would rather do without it.” After negotiations, Bobby purchased the car for $19,250.00. His consumer surplus was equal to
A) $19,500.00
B) $1,750.00
C) $250.00
D) $0.00
Answer: C
31) The figure above shows Clara’s demand for CDs. If the market price for a CD is $10, then Clara
A) receives no consumer surplus on the 6th CD she buys.
B) receives a total of $10 of consumer surplus.
C) will buy no CDs.
D) receives a total of $40 of consumer surplus.
Answer: A

32) The figure above shows Clara’s demand for CDs. The market price for a CD is $15. Which state-
A) When Clara buys 6 CDs, she receives $15 of consumer surplus on her 6th CD.
B) When Clara buys 6 CDs, she receives a total of $15 of consumer surplus.
C) When Clara buys 6 CDs, she receives a total of $30 of consumer surplus.
D) When Clara buys 6 CDs, she receives a total of $45 of consumer surplus.
Answer: D

33) At a price of $20 for a CD, the value of Clara’s total consumer surplus for all the CDs she buys would be
A) $40.
B) $30.
C) $20.
D) $4.
Answer: C

34) At a price of $5 for a CD, the value of Clara’s total consumer surplus for all the CDs she buys would be
A) $5.
B) $10.
C) $25.
D) $125.
Answer: D

35) If the price of a CD were to increase from $15 to $25, Clara’s total consumer surplus for all the CDs she buys would
A) decrease by $40.
B) remain unchanged.
C) decrease by $90.
D) increase by $80.
Answer: A
36) The above figure shows Dana’s marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon, then the maximum that Dana is willing to pay for the 8th gallon of ice cream is
A) $1.
B) $2.
C) $3.
D) $5.
Answer: C

37) In the above figure, the individual’s consumer surplus will be highest if
A) the price of ice cream is $5 per gallon.
B) the price of ice cream is $3 per gallon.
C) the price of ice cream is $2 per gallon.
D) ice cream is free.
Answer: D

38) The above figure shows Dana’s marginal benefit curve for ice cream. If the market price is $2 per gallon, then Dana’s consumer surplus from the 4th gallon of ice cream is
A) $0.
B) $2.
C) $3.
D) $10.
Answer: B

39) The above figure shows Dana’s marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon, then Dana’s consumer surplus from the 4th gallon
A) is greater than her consumer surplus from the 8th gallon.
B) is the same as her consumer surplus from the 8th gallon.
C) is less than her consumer surplus from the 8th gallon.
D) could be greater than, equal to, or less than the consumer surplus from the 8th gallon.
Answer: A

40) The above figure shows Dana’s marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon, then the gallon that gives Dana exactly zero consumer surplus is
A) the 8th gallon.
B) the 12th gallon.
C) the 16th gallon.
D) the 20th gallon.
Answer: B

41) The above figure shows Dana’s marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon and Dana is allowed to buy only 8 gallons of ice cream, then her consumer surplus on the 8th gallon is
A) $1.
B) $2.
C) $3.
D) $8.
Answer: A

42) In the above figure, consumer surplus is measured in
A) gallons of ice cream.
B) dollars per gallon of ice cream.
C) gallons of ice cream per dollar.
D) dollars.
Answer: D
**Topic: Consumer Surplus**  
**Skill: Recognition**

43) Consumer surplus is  
A) the value of a good minus the price paid for it.  
B) the price paid for a good minus the value of the good.  
C) the price paid for a good minus the opportunity cost of making it.  
D) the opportunity cost of making a good minus the price paid for it.  

Answer: A

---

**Topic: Consumer Surplus**  
**Skill: Analytical**

44) In the above figure, if the price is $2, then the total consumer surplus will be  
A) triangle $abc$.  
B) triangle $cef$.  
C) trapezoid $adec$.  
D) trapezoid $bdfc$.  

Answer: A

---

**Cost, Price, and Producer Surplus**

**Topic: Cost, Minimum-Supply Price, and Supply**  
**Skill: Conceptual**

45) The marginal cost curve  
A) shows the maximum price that a producer must receive to induce it to produce a unit of a good or service.  
B) shows the minimum price sellers must receive to produce a unit of a good or service.  
C) is the same as the demand curve.  
D) shows what buyers are willing to give up to get one more unit of a good or service.  

Answer: B

---

**Topic: Cost, Minimum-Supply Price and Supply**  
**Skill: Conceptual**

46) If there are no external costs or benefits, a good’s marginal cost curve  
A) is the same as its supply curve.  
B) measures the minimum price that producers must be offered to produce a given quantity of the good.  
C) None of the above answers are correct.  
D) Both answers A and B are correct.  

Answer: D

---

**Topic: Cost, Minimum-Supply Price and Supply**  
**Skill: Conceptual**

47) Currently tire producers must receive a price of $50 per tire to produce 5000 tires. If the supply curve of tires is upward sloping, then to produce one additional tire, tire producers will need to receive a price  
A) of $50.  
B) less than $50.  
C) more than $50.  
D) $0.  

Answer: C

---

**Topic: Cost, Minimum-Supply Price and Supply**  
**Skill: Conceptual**

48) If there are no external costs, the supply curve shows the quantity supplied at each price and also shows the  
A) benefit from each unit of the good.  
B) marginal cost of each unit of the good.  
C) maximum price for which suppliers will sell each unit of the good.  
D) total surplus of the good.  

Answer: B
49) Marginal cost
   A) is the additional cost to the consumer of consuming another unit of a good.
   B) is equal to price times quantity sold.
   C) decreases as more of a good is produced and, hence, is depicted by a downward sloping curve.
   D) is the opportunity cost of producing one more unit of a good and, hence, is the same as the supply curve.
   Answer: D

50) Producer surplus is the
   A) value of a good minus the price paid for it.
   B) price paid for a good minus the value of the good.
   C) price paid for a good minus the opportunity cost of making it.
   D) opportunity cost of making a good minus the price paid for it.
   Answer: C

51) Producer surplus is the
   A) difference between the marginal benefit and the marginal cost.
   B) number of dollars’ worth of other goods and services forgone to produce one more unit of a good or service.
   C) difference between the price of a good or service and the opportunity cost of producing the good or service.
   D) difference between the total cost of a good or service and the marginal cost.
   Answer: C

52) When the Smith’s were shopping for their present home, the asking price from the previous owner was $250,000.00. The Smith’s had decided they would pay no more than $245,000.00 for the house. After negotiations, the Smith’s actually purchased the house for $239,000.00. Therefore, the previous owner earned a producer surplus of
   A) $250,000.00.
   B) $11,000.00.
   C) $5,000.00.
   D) an amount unknown given the information in the question.
   Answer: D

53) To cover all her costs of production, Sarah knows that she must sell her sunflower seeds for $5.00 per bushel. She simply cannot accept any lower price and remain in business. When she sells all of her seeds for $5.50 per bushel, she earns a producer surplus equal to
   A) $5.50 times the number of bushels produced.
   B) $5.00 times the number of bushels produced.
   C) $0.50 times the number of bushels produced.
   D) zero.
   Answer: C
Topic: Producer Surplus  
Skill: Conceptual

54) In the above figure, when the price of pretzels is $3.00 per pound, the total producer surplus from all the CDs will be
A) zero.  
B) greater than at any other price.  
C) less than at any other price.  
D) the sum of the difference between $3.00 and the opportunity cost of each and every pound produced.

Answer: D

Topic: Producer Surplus  
Skill: Analytical

55) In the above figure, the lowest price for which the firm will sell its second ton of wheat is
A) $25.  
B) $50.  
C) $75.  
D) $100.

Answer: C

Topic: Producer Surplus  
Skill: Analytical

56) In the above figure, if the market price is $100 per ton, then the firm’s producer surplus on the second ton of wheat is
A) $25.  
B) $50.  
C) $75.  
D) $100.

Answer: A

Topic: Producer Surplus  
Skill: Analytical

57) In the above figure, the producer surplus would be zero if the price per ton of wheat was
A) $25.  
B) $50.  
C) $75.  
D) $100.

Answer: A
58) In the above figure, the marginal cost of the second ton of wheat is
A) $25.
B) $50.
C) $75.
D) None of the above.
Answer: C

59) In the above figure, if the market price rises from $100 to $125 per ton of wheat, then producer surplus
A) decreases.
B) does not change.
C) increases.
D) might increase, decrease, or not change depending on how the demand curve for wheat shifts.
Answer: C

Is the Competitive Market Efficient?

60) When a market is in equilibrium, the total amount of consumer surplus must be ___ the total amount of producer surplus.
A) larger than
B) equal to
C) less than
D) None of the above answers are correct.
Answer: D

61) When the competitive market is using its resources efficiently, the
A) total amount of consumer surplus is maximized.
B) total amount of producer surplus is maximized.
C) sum of the total amount of consumer surplus plus the total amount of producer surplus are maximized.
D) sum of the total amount of consumer surplus plus the total amount of producer surplus equals zero.
Answer: C

Price (cents per brownie) | Quantity demanded (per day) | Quantity supplied (per day)
--- | --- | ---
0 | 1,800 | 0
10 | 1,600 | 100
20 | 1,400 | 200
30 | 1,200 | 300
40 | 1,000 | 400
50 | 800 | 500
60 | 600 | 600
70 | 400 | 700
80 | 200 | 800
90 | 0 | 900

62) If the market for roller blades is at a competitive equilibrium, and there are no external costs nor benefits and no price ceilings, price floors, taxes, or subsidies, then
A) marginal benefit is equal to marginal cost.
B) the sum of consumer surplus and producer surplus is maximized.
C) resources are being used efficiently.
D) All of the above answers are correct.
Answer: D

63) In the above table, what is the maximum price that consumers are willing to pay for the 200th brownie?
A) 0
B) 20¢
C) 60¢
D) 80¢
Answer: D

64) In the above table, what is the minimum price that producers must be offered to produce the 200th brownie?
A) 0
B) 20¢
C) 60¢
D) 80¢
Answer: B
**Topic: Deadweight Loss**

**Skill: Conceptual**

65) In the above table, when 200 brownies are produced,

A) marginal benefit is greater than marginal cost, and resource use is efficient.
B) marginal benefit is greater than marginal cost, and there is a deadweight loss.
C) marginal benefit equals marginal cost, and resource use is efficient.
D) marginal benefit is less than marginal cost, and there is a deadweight loss.

**Answer: B**

**Topic: Efficiency of Competitive Markets**

**Skill: Recognition**

66) In the above table, the efficient quantity of brownies is produced when the price of a brownie is equal to

A) 0.
B) 40¢.
C) 60¢.
D) 80¢.

**Answer: C**

**Topic: An Efficient Market**

**Skill: Analytical**

67) In the above figure,

A) marginal social cost equals marginal social benefit when 300,000 purses are produced.
B) 500,000 purses should be sold for $50 each for an efficient outcome.
C) it is impossible to determine the efficient quantity of purses.
D) None of the above answers is correct.

**Answer: A**

**Topic: Consumer Surplus**

**Skill: Analytical**

68) In the above figure, if the market produces the efficient amount of purses then consumer surplus equals triangle

A) abc.
B) bcd.
C) ade.
D) cef.

**Answer: A**

**Topic: Consumer Surplus**

**Skill: Analytical**

69) In the above figure, the total consumer surplus at the efficient level of output is ____.

A) $4.5 million
B) $9.0 million
C) $2.5 million
D) $8.5 million

**Answer: A**
70) In the above figure, if the market produces the efficient amount of purses then producer surplus equals triangle 
A) abc.  
B) bcd.  
C) adc.  
D) dce.  
Answer: B

71) In the above figure, if the market produces the efficient amount of purses then producer surplus equals
A) triangle bcd.  
B) triangle adc.  
C) rectangle bcde.  
D) trapezoid adce.  
Answer: A

72) In the above figure, the total producer surplus at the efficient level of output is ____.
A) $4.5 million  
B) $9.0 million  
C) $2.5 million  
D) $3.0 million  
Answer: D

74) In the above figure, 300,000 purses per month is
A) the efficient amount to produce because at 300,000 purses marginal social benefits equal marginal social costs.  
B) the efficient amount to produce because at 300,000 purses marginal social benefits are greater than marginal social costs.  
C) an inefficient amount to produce because at 300,000 purses marginal social benefits equal marginal social costs.  
D) an inefficient amount to produce because producing 500,000 purses sets the marginal social benefit equal to zero.  
Answer: A

75) The above figure illustrates the marginal social benefit and marginal social cost for chicken sandwiches. If the quantity is decreased from 6 to 3 and the price increases from $3 to $4, consumer surplus will decrease by
A) $1.50.  
B) $2.00.  
C) $3.00.  
D) $4.50.  
Answer: D
76) In the above figure, suppose the quantity produced is 40. Then
A) the marginal social cost of the 40th unit is 1.
B) the willingness to pay for the 30th unit is 1.
C) production is not efficient because $MSB > MSC$.
D) production is not efficient because $MSC > MSB$.
Answer: D

77) In the above figure, at the equilibrium price and quantity, consumer surplus is ____.
A) $90.
B) $60.
C) $45.
D) $30.
Answer: C

78) In the above figure, at the equilibrium price and quantity, producer surplus is ____.
A) $90.
B) $60.
C) $45.
D) $30.
Answer: D

79) Adam Smith argued that each person in a competitive market is led to promote the
A) efficient use of society’s resources, because each person’s intention is to make society better off.
B) efficient use of society’s resources, even though it is no person’s intention to make society better off.
C) inefficient use of society’s resources, even though each person’s intention is to make society better off.
D) inefficient use of society’s resources, because it is no person’s intention to make society better off.
Answer: B

80) The author in 1776 of the book The Wealth of Nations was
A) John Maynard Keynes.
B) Gary Becker.
C) Adam Smith.
D) David Ricardo.
Answer: C

81) If there are no external costs or benefits, no price ceilings or price floors, and the good is not a public good or a common resource, then efficiency is
A) achieved when a monopoly produces the good.
B) achieved when the good is produced in a competitive market.
C) achieved when the amount of output exceeds the amount produced in a competitive market.
D) unrelated to the amount produced in a competitive market.
Answer: B

82) A price ____ makes it illegal to pay a lower price than the specified level. One example is
A) floor; the minimum wage.
B) floor; rent control.
C) ceiling; the minimum wage.
D) ceiling; rent control.
Answer: A
83) A payment by the government that decreases the price paid by consumers and increases the price received by sellers is a
A) price ceiling.
B) tax.
C) subsidy.
D) quota.
Answer: C

84) A law or regulation that limits the amount that a firm is permitted to produce is called a
A) subsidy.
B) tax.
C) floor.
D) quota.
Answer: D

85) A firm that is the only seller of a product and has sole control of a market has a
A) monopoly.
B) quota.
C) subsidy.
D) public good.
Answer: A

86) A public good is
A) consumed by only one person who does not have to pay for it.
B) consumed by only one person who has to pay for it.
C) consumed by everyone simultaneously, as long as they pay for it.
D) consumed by everyone simultaneously, even if they do not pay for it.
Answer: D

87) Among the sources of economic inefficiency are all of the following EXCEPT
A) subsidies.
B) taxes.
C) competition.
D) external costs.
Answer: C

88) Which of the following is NOT an obstacle to the achievement of an efficient allocation of resources in a market economy?
A) Price ceilings and price floors.
B) Rapid technological change.
C) Monopoly.
D) Taxes, subsidies, and quotas.
Answer: B

89) Lobbyists for the steel industry have been able to get legislation passed that guarantees that steel will be sold for $500 per ton. The competitive equilibrium is $400 per ton. As a result of this legislation
A) less steel than the efficient quantity will be produced.
B) more steel than the efficient quantity will be produced.
C) steel consumers would be willing to pay $400 per ton for steel.
D) consumer surplus will increase in value.
Answer: B

90) Competitive markets will generally produce
A) too much of a public good.
B) too little of a public good.
C) the efficient amount of a public good.
D) the efficient amount of a public good in the short run, but not in the long run.
Answer: B
CHAPTER 5

Topic: Obstacles to Efficiency
Skill: Conceptual
91) If there is an external cost from making paper, an unregulated competitive market produces
A) less than the efficient quantity.
B) the efficient quantity.
C) more than the efficient quantity.
D) a quantity that could be greater than, the same as, or less than the efficient amount.
Answer: C

Topic: Underproduction
Skill: Conceptual
92) Underproduction implies that for the last unit produced
A) marginal social benefit exceeds marginal social cost.
B) marginal social benefit equals marginal social cost.
C) marginal social cost exceeds marginal social benefit.
D) the deadweight loss is zero.
Answer: A

Topic: Overproduction
Skill: Conceptual
93) Overproduction implies that for the last unit produced
A) marginal social benefit exceeds marginal social cost.
B) marginal social benefit equals marginal social cost.
C) marginal social cost exceeds marginal social benefit.
D) the deadweight loss is zero.
Answer: C

Topic: Deadweight Loss
Skill: Conceptual
95) The deadweight loss from producing an inefficient amount is
A) a loss to the consumer but a gain to the producer.
B) a loss to the producer but a gain to the consumer.
C) a gain to the consumer and the producer, but a loss to the rest of society.
D) a loss to the consumer and to the producer.
Answer: D

Topic: Underproduction
Skill: Conceptual
92) Underproduction implies that for the last unit produced
A) marginal social benefit exceeds marginal social cost.
B) marginal social benefit equals marginal social cost.
C) marginal social cost exceeds marginal social benefit.
D) the deadweight loss is zero.
Answer: A

Topic: Deadweight Loss
Skill: Conceptual
96) Deadweight loss is the decrease in ____ from producing an inefficient amount of a product.
A) consumer surplus
B) producer surplus
C) consumer surplus and producer surplus
D) profit
Answer: C

Topic: Deadweight Loss
Skill: Conceptual
97) Consider the market for hot dogs. If the government imposes a tax on hot dogs,
A) there will be a loss of consumer surplus.
B) there will be a gain of producer surplus.
C) deadweight loss will be minimized.
D) the marginal cost and marginal benefit of hot dogs will decrease.
Answer: A

Topic: Overproduction
Skill: Conceptual
93) Overproduction implies that for the last unit produced
A) marginal social benefit exceeds marginal social cost.
B) marginal social benefit equals marginal social cost.
C) marginal social cost exceeds marginal social benefit.
D) the deadweight loss is zero.
Answer: C

Topic: Deadweight Loss
Skill: Conceptual
94) Deadweight loss can be the result of
A) overproduction, but not underproduction.
B) underproduction, but not overproduction.
C) both overproduction and underproduction.
D) neither overproduction, nor underproduction.
Answer: C
98) In the above figure, the deadweight loss is zero if output is
A) 0 units.
B) 10 units.
C) 20 units.
D) 30 units.
Answer: C

99) In the above figure, of the quantities listed below, for which is the total deadweight loss the largest?
A) 0 units.
B) 10 units.
C) 20 units.
D) 30 units.
Answer: A

100) In the above figure, as output increases from 0 units to 10 units to 20 units to 30 units, the deadweight loss
A) falls.
B) falls at first, then rises.
C) rises.
D) rises at first, then falls.
Answer: B

101) In the above figure, if output is 30 units, then the total deadweight loss is
A) $5.
B) $10.
C) $20.
D) $60.
Answer: B

102) In the above figure, if output is 10 units, then the total deadweight loss is
A) $5.
B) $10.
C) $20.
D) $60.
Answer: B

103) In the above figure, suppose that the government sets a quota at 10 units of output and the price rises to $4. In comparison to a competitive market the consumer surplus would fall by
A) $0.
B) $10.
C) $15.
D) $20.
Answer: C

104) In the above figure, suppose that the government sets a quota at 10 units of output and the price rises to $4. In comparison to a competitive market the producer surplus would rise by
A) $0.
B) $5.
C) $15.
D) $20.
Answer: B
105) In the above figure, suppose that the government sets a quota at 10 units of output and the price rises to $4. The total deadweight loss would be
A) $0.
B) $10.
C) $15.
D) $20.
Answer: B

106) In the above figure, when the efficient quantity of gloves is produced, the total consumer surplus equals
A) $3,000.
B) $15,000.
C) $22,500.
D) $45,000.
Answer: C

107) In the above figure, when the efficient quantity of gloves is produced, the total producer surplus equals
A) $3,000.
B) $15,000.
C) $22,500.
D) $45,000.
Answer: C

108) In the above figure, if the production of gloves was restricted to 2,000 a day, then the deadweight loss would equal
A) $0, because 2,000 gloves per day is an efficient quantity of gloves to produce.
B) $2,000.
C) $5,000.
D) $10,000.
Answer: C

109) What is the efficient quantity of snowboards in the above figure?
A) 0
B) 100
C) 200
D) 500
Answer: B

110) What area in the above figure is the consumer surplus at the efficient quantity?
A) A.
B) A + B + C.
C) F.
D) D + E + F.
Answer: B
**Topic: Consumer Surplus**  
**Skill: Analytical**

111) In the above figure, what is the numerical value of consumer surplus at the efficient quantity?

A) $0.
B) $1,000.
C) $2,000.
D) $4,000.

**Answer: C**

**Topic: Producer Surplus**  
**Skill: Conceptual**

112) What area in the above figure is the producer surplus at the efficient quantity?

A) $A$.
B) $A + B + C$.
C) $F$.
D) $D + E + F$.

**Answer: D**

**Topic: Producer Surplus**  
**Skill: Analytical**

113) In the above figure, what is the numerical value of producer surplus at the efficient quantity?

A) $0$.
B) $1,000$.
C) $2,000$.
D) $4,000$.

**Answer: C**

**Topic: Underproduction**  
**Skill: Conceptual**

114) Which area in the above figure is the deadweight loss that arises if 100 snowboards are produced?

A) $A + B + C$.
B) $D + E + F$.
C) $C + E$.
D) There is no deadweight loss when 100 snowboards are produced.

**Answer: C**

**Topic: Efficiency of Competitive Markets**  
**Skill: Analytical**

115) In the above figure, a price of $1.25 and a quantity of 5 million gallons of milk per day maximizes the

A) amount of consumer surplus.
B) amount of producer surplus.
C) sum of consumer surplus and producer surplus.
D) All of the above answers are correct.

**Answer: C**

116) In the above figure, the efficient quantity of milk is

A) 10 million gallons per day.
B) 5 million gallons per day.
C) zero gallons per day.
D) None of the above because all of the quantities are efficient.

**Answer: B**

117) In the above figure, if the price is $1.25 then

A) consumer surplus is $25 million and producer surplus is $25 million.
B) consumer surplus is $12.5 million and producer surplus is $12.5 million.
C) consumer surplus is $6.25 and producer surplus is $6.25.
D) None of the above answers are correct.

**Answer: D**
118) In the above figure suppose there is only one milk producer who chooses to restrict milk production to two million gallons per day. What is the size of the deadweight loss? (Hint: It is equal to the triangular area of consumer and producer surplus that is lost because of the reduction in output.)

A) $12.5 million
B) $6.25 million
C) $2.25 million
D) None of the above

Answer: C

119) In the above figure, suppose the government subsidizes the production of milk so that milk production increases to 8 million gallons per day. What is the size of the deadweight loss? (Hint: It is equal to the triangular area of negative consumer and producer surplus that results when output exceeds the efficient level.)

A) $12.5 million
B) $6.25 million
C) $4.50 million
D) $2.25 million

Answer: D

121) In the table above, if there are 80 umbrellas produced, the deadweight loss from the 80th umbrella is

A) $10.
B) $20.
C) $30.
D) $40.

Answer: B

122) In the table above, the deadweight loss is at its minimum when ____ umbrellas are produced and sold.

A) 20.
B) 40.
C) 60.
D) 80.

Answer: B

123) Using the “It’s not fair if the result isn’t fair” principle of fairness, an income tax designed to transfer wealth from the rich to the poor

A) increases efficiency and equity.
B) increases efficiency and not affect equity.
C) decreases efficiency and increases equity.
D) decreases efficiency and equity.

Answer: C
Topic: Utilitarianism
Skill: Recognition
124) Which of the following correctly defines utilitarianism?
A) Cost will increase if production increases.
B) The difference between what a consumer is willing to pay and what actually has to be paid.
C) Society should strive to achieve the greatest good for the greatest number.
D) Equality will not result in efficient outcomes.
Answer: C

Topic: Utilitarianism
Skill: Conceptual
125) One of the problems associated with the utilitarianism is that it does not recognize that
A) taxing those with higher incomes may result in less work effort.
B) each individual receives a different marginal benefit from a dollar’s worth of income.
C) equity is achieved when there is no poor and no rich.
D) similar individuals should be treated the same.
Answer: A

Topic: Utilitarianism
Skill: Recognition
126) The principle that states that we should strive to achieve the greatest happiness for the greatest number is called
A) the big tradeoff.
B) the symmetry principle.
C) utilitarianism.
D) efficiency.
Answer: C

Topic: Utilitarianism
Skill: Recognition
127) According to Utilitarian principles first discussed in the nineteenth century, fairness implies
A) equality of outcome.
B) equality of opportunity.
C) winner takes all.
D) maximizing consumption.
Answer: A

Topic: Utilitarianism
Skill: Recognition
128) Which of the following assumptions are essential for complete income equality to be fair if there are no costs associated with making income transfers?
A) The belief that the best outcome for society is the one that yields “the greatest happiness for the greatest number.”
B) That everyone have the same basic wants and be similar in their capacity to enjoy life.
C) That marginal benefit decreases as income increases.
D) All of the answers above are correct because they are all necessary assumptions for complete income equality to be fair.
Answer: D

Topic: Utilitarianism
Skill: Conceptual
129) One problem with the concept of utilitarianism is that,
A) there is a cost to transferring income from the rich to the poor.
B) there are increasing marginal costs.
C) there are decreasing marginal benefits.
D) markets cannot adjust to income redistribution.
Answer: A

Topic: Symmetry Principle
Skill: Recognition
130) The requirement that people in similar situations be treated similarly is called
A) the big tradeoff.
B) the symmetry principle.
C) utilitarianism.
D) efficiency.
Answer: B

Topic: Symmetry Principle
Skill: Recognition
131) The symmetry principle in economics means that
A) all individuals must have similar outcomes.
B) all similar individuals must be treated similarly.
C) individuals must have opposite outcomes.
D) similar individuals must have similar outcomes.
Answer: B
CHAPTER 5

Topic: It's Not Fair If the Rules Aren't Fair
Skill: Analytical

132) Competitive markets with no external costs or benefits and no government price ceilings, floors, taxes or subsidies ____ efficient. According to the “It’s not fair if the rules aren’t fair” idea of fairness, competitive markets ____ fair.

A) are; are
B) are; are not
C) are not; are
D) are not; are not

Answer: A

Study Guide Questions

Topic: Study Guide Question, Efficiency and Inefficiency
Skill: Conceptual*

133) In general, resources are used efficiently when the
A) opportunity cost of the goods being produced is as low as possible.
B) marginal benefit from a good exceeds its marginal cost by as much as possible.
C) goods produced are those valued most highly.
D) None of the above.

Answer: C

Topic: Study Guide Question, Marginal Benefit
Skill: Conceptual*

134) Which of the following statements is FALSE?
A) The value of one more unit of a good is the good’s marginal benefit.
B) A good’s marginal benefit is the maximum price people are willing to pay for another unit.
C) The maximum price people are willing to pay for one more unit of a good is its value.
D) None of the above because all the statements are true.

Answer: D

Topic: Study Guide Question, Marginal Benefit
Skill: Recognition

136) The marginal benefit curve for a product can be the same as the good’s
A) marginal cost curve.
B) supply curve.
C) demand curve.
D) consumer surplus curve.

Answer: C

Topic: Study Guide Question, Consumer Surplus
Skill: Analytical

137) Alice is willing to pay $3 for the second slice of pizza she eats. The price she pays is $2. Alice’s consumer surplus for this slice of pizza equals
A) $0.
B) $1.
C) $2.
D) $3.

Answer: B

Topic: Study Guide Question, Consumer Surplus
Skill: Conceptual

138) Charlie’s consumer surplus from the first slice of pizza he buys is greater than the consumer surplus from the second slice because of
A) decreasing marginal benefits.
B) increasing marginal benefits.
C) decreasing marginal costs.
D) increasing marginal cost.

Answer: A
139) The cost of producing one more pizza is the
A) price.
B) marginal benefit.
C) marginal cost.
D) producer surplus.
Answer: C

140) The supply curve shows the
A) minimum price suppliers must receive in order to produce another unit of the good.
B) maximum price suppliers must receive in order to produce another unit of the good.
C) amount of producer surplus suppliers receive.
D) profit that suppliers receive from producing another unit of the good.
Answer: A

141) The producer surplus from a good is equal to the
A) maximum amount a consumer is willing to pay for the good minus the price that actually must be paid.
B) actual price of the good minus the maximum amount a consumer is willing to pay for the good.
C) opportunity cost of producing the good minus its price.
D) price of the good minus its opportunity cost of production.
Answer: D

142) Suppose the marginal cost of producing a good falls so that the marginal social cost curve shifts downward. Then the efficient quantity to produce of that product
A) increases.
B) does not change.
C) decreases.
D) could increase, stay the same, or decrease.
Answer: A

143) Suppose consumers decide they value a product more highly than before. Then the efficient quantity to produce of that product_____.
A) increases.
B) does not change.
C) decreases.
D) perhaps changes, but without more information the direction of the change cannot be told.
Answer: A

144) In the figure above, when production is 3 units with a price of $3, the consumer surplus equals
A) \( a + b \).
B) \( a + b + f + g \).
C) \( a + b + f + g + h + l \).
D) \( a + b + f + g + h + l + i + m \).
Answer: A

145) In the figure above, when production is 3 units with a price of $3, the producer surplus in this market equals
A) \( b + g \).
B) \( f + g \).
C) \( a + b + f + g \).
D) \( a + b + f + g + h + i \).
Answer: B
146) In the figure above, if the quantity is restricted to 2, then the deadweight loss in this market equals
A) \( b + g \).
B) \( c + d \).
C) \( e + k \).
D) \( h + i \).
Answer: A

146) A deadweight loss
A) is possible only if the good is underproduced but is not possible if the good is overproduced.
B) subtracts only from producer surplus.
C) is a loss to consumers and a gain to producers.
D) is a loss inflicted on the entire society.
Answer: D

148) Which of these is NOT a potential source of inefficiency?
A) External benefits.
B) Increasing marginal costs.
C) Monopoly.
D) Subsidies.
Answer: B

149) Susan thinks the only fair outcome is one in which she has three slices of pizza a week. Susan is using a _____ concept of fairness.
A) “it’s not fair if the result isn’t fair”
B) “it’s not fair if the rules aren’t fair”
C) “big tradeoff”
D) “symmetry principle”
Answer: A

150) The assertion that if resources are allocated efficiently, they also are allocated fairly is made by
A) all utilitarians.
B) John Rawls, who proposed making the poorest as well off as possible.
C) Robert Nozick, who believes that equality of opportunity is fair.
D) all economists who understand the big tradeoff.
Answer: C

151) If a country can produce more of one good without producing less of another good that people value more highly, then ____.
A) resource use is inefficient
B) the resources used have the highest possible value
C) the opportunity cost is the lowest possible
D) resource use is efficient
Answer: A

152) Marginal benefit is the benefit received from _____.
A) consuming more goods or services
B) producing the efficient quantity
C) consuming the efficient quantity
D) consuming one more unit of a good or service
Answer: D

153) Marginal cost is
A) is the same as the marginal benefit because producers benefit from the money they receive when they sell the good.
B) is the opportunity cost of producing one more unit.
C) is the total opportunity cost of producing all the units of the good.
D) zero at the efficient level of production.
Answer: B
Topic: Value, Willingness to Pay, and Demand
Level 1: Definitions and Concepts
154) The value of a tub of ice cream equals all of the following items EXCEPT the ____.
A) marginal benefit from consuming it
B) price paid for the tub
C) maximum price that people are willing to pay for it
D) price paid for the tub plus the consumer surplus from it
Answer: B

Topic: Consumer Surplus
Level 1: Definitions and Concepts
155) Consumer surplus is the ____.
A) value of the good minus its price summed over the quantity purchased
B) greatest when price increases
C) total price paid by consumers minus the total cost of producing the good
D) the number of goods sold times the market price
Answer: A

Topic: Producer Surplus
Level 1: Definitions and Concepts
156) Producer surplus is the price of the good ____.
A) plus the consumer surplus
B) times the quantity sold
C) minus its opportunity cost of production
D) subtracted from the value of the good
Answer: C

Topic: Utilitarianism
Level 1: Definitions and Concepts
157) Utilitarianism is a principle whose goal is ____.
A) the greatest happiness for the greatest number
B) the greatest pay for the greatest number
C) equal pay for equal work
D) equal happiness for all workers
Answer: A

Topic: Obstacles to Efficiency
Level 1: Definitions and Concepts
158) A cost borne not by the producer but by other people is called ____ cost.
A) an unregulated
B) an external
C) a consumer
D) a non-production
Answer: B

Topic: Obstacles to Efficiency
Level 1: Definitions and Concepts
159) An external benefit is a benefit that ____.
A) accrues to someone other than the buyer of a good
B) always equals external cost
C) experiences increasing marginal returns
D) is greatest at the equilibrium point
Answer: A

Topic: Deadweight Loss
Level 1: Definitions and Concepts
160) At the efficient level of production, ____.
A) producer surplus must be greater than consumer surplus
B) consumer surplus must be greater than producer surplus
C) there is no deadweight loss
D) the market price is greater than the monopoly price
Answer: C

Topic: Value, Willingness to Pay, and Demand
Level 2: Using Definitions and Concepts
161) If you increase your consumption of soda by one additional can a week, your marginal benefit of this last can is $1.00. The ____ of this last can of soda is $1.00.
A) value
B) price
C) opportunity cost
D) marginal cost
Answer: A

Topic: Efficiency and Inefficiency
Level 2: Using Definitions and Concepts
162) Which of the following statements is true?
A) At the efficient quantity, marginal benefit equals marginal cost.
B) Marginal cost increases as the quantity produced decreases.
C) Marginal benefit decreases as the quantity consumed decreases.
D) If marginal benefit exceeds marginal cost by as much as possible, production is efficient.
Answer: A
**Topic: Consumer Surplus**

**Level 2: Using Definitions and Concepts**

163) If the market price of a pizza increases and the demand curve for pizza does not shift, then the consumer surplus from pizza will ____.

A) increase  
B) decrease  
C) equal the producer surplus if the market produces the efficient quantity of pizza  
D) remain the same  

**Answer: B**

**Topic: Producer Surplus**

**Level 2: Using Definitions and Concepts**

164) In the market for CDs, the producer surplus will decrease if ____.

A) the supply of CDs increases  
B) the demand for CDs decreases  
C) the opportunity cost of a CD decreases  
D) the market price of a CD increases  

**Answer: B**

**Topic: Efficiency and Inefficiency**

**Level 2: Using Definitions and Concepts**

165) In a competitive market, which of the following statements is wrong?

A) The value of the good is the same as marginal benefit.  
B) The marginal benefit is the same as opportunity cost.  
C) The willingness to pay for a good is the same as the value of the good.  
D) The minimum supply price is the same as opportunity cost.  

**Answer: B**

**Topic: Obstacles to Efficiency**

**Level 2: Using Definitions and Concepts**

167) The supplier of your ____ is most likely a monopoly.

A) shoes  
B) toothpaste  
C) textbooks  
D) electricity  

**Answer: D**

**Topic: Obstacles to Efficiency**

**Level 2: Using Definitions and Concepts**

168) The pollution created when coal is burned by utilities to generate electricity is an example of ____.

A) a marginal benefit to coal producers  
B) a welfare cost  
C) an external cost  
D) a cost paid by the utilities  

**Answer: C**

**Topic: Symmetry Principle**

**Level 2: Using Definitions and Concepts**

169) The moral principle at the center of all major religions is the ____.

A) symmetrically fair principle  
B) symmetry principle  
C) common property syndrome  
D) fairness principle  

**Answer: B**

**Topic: Deadweight Loss**

**Level 2: Using Definitions and Concepts**

170) Underproduction of good ____ a deadweight loss and overproduction of a good ____ a deadweight loss.

A) will; will  
B) will; will not  
C) will not; will  
D) will not; will not  

**Answer: A**
Topic: Marginal Benefit and Marginal Cost  
Level 3: Calculations and Predictions  
171) The figure illustrates the market for haircuts. Curve A is the ____ curve, and curve B is the ____ curve.  
A) marginal cost; marginal benefit  
B) total cost; total benefit  
C) opportunity cost; opportunity benefit  
D) marginal benefit; marginal cost  
Answer: A

Topic: Efficiency and Inefficiency  
Level 3: Calculations and Predictions  
172) When 2,000 hamburgers per day are produced, the marginal benefit is $1.50 and the marginal cost is $1.00. And when 7,500 hamburgers per day are produced, marginal benefit is $1.00 and marginal cost is $1.50. The efficient production quantity of hamburgers is ____ a day.  
A) more than 7,500  
B) 7,500  
C) between 2,000 and 7,500  
D) 2,000  
Answer: C

Topic: Efficiency and Inefficiency  
Level 3: Calculations and Predictions  
173) If the marginal benefit from a slice of pizza is less than the marginal cost of producing a slice of pizza, then the resources will be used more efficiently if ____ slices of pizza are produced and ____ other goods are produced.  
A) less; fewer  
B) more; fewer  
C) more; more  
D) less; more  
Answer: D

Topic: Efficiency and Inefficiency  
Level 3: Calculations and Predictions  
174) In the market for DVDs, 500,000 DVDs a month are available. The value people place on the 500,000th DVD a month is less than the opportunity cost of producing it. Resource use ____  
A) is efficient  
B) is inefficient  
C) would be more efficient if people firms would produce more DVDs  
D) would be more efficient if people would buy more DVDs  
Answer: B

Topic: Utilitarianism  
Level 3: Calculations and Predictions  
175) Adam makes $25,000 per year and Bob makes $45,000 a year, and they both have the same marginal benefit curve. According to the utilitarian view, if a dollar is transferred from Bob to Adam, then ____ marginal benefit ____.  
A) the change in Adam’s; plus the change in Bob’s marginal benefit is negative  
B) Adam’s; increases by more than Bob’s marginal benefit decreases  
C) the change in Adam’s; plus the change in Bob’s marginal benefit equals zero  
D) Adam’s; decreases by more than Bob’s marginal benefit increases  
Answer: B
176) The figure tells us about the market for red roses. The consumer surplus is ____ a day.
A) $800
B) $200
C) $1,000
D) $20
Answer: B

177) The figure tells us about the market for red roses. On Valentine’s Day, the demand for red roses doubles. If florists increase the price to $25 a dozen, consumer surplus ____.
A) decreases to zero
B) halves
C) decreases
D) might increase or decrease depending on what happens to the supply of roses
Answer: C
**Topic: Producer Surplus**

**Level 3: Calculations and Predictions**

178) The figure illustrates the market for hot dogs on Big Foot Island. The producer surplus is ____.

A) $240 an hour  
B) $180 an hour  
C) $1.20 a hot dog  
D) $60 an hour

Answer: D

**Topic: Efficiency and Inefficiency**

**Level 3: Calculations and Predictions**

179) If the marginal cost of producing a hair styling decreases, then the efficient quantity of hair stylings to produce ____.

A) depends on the marginal benefit  
B) remains the same  
C) decreases  
D) increases

Answer: D

**Topic: Obstacles to Efficiency**

**Level 3: Calculations and Predictions**

180) In the competitive market for balloon rides, marginal cost equals marginal benefit when 3,000 balloon rides a day are taken and the price of a ride is $130. Which of the following statements is true?

A) There is a free-rider problem.  
B) Too many rides are available.  
C) Too few rides are available and the price of a balloon ride is too high.  
D) The efficient quantity of balloon rides is 3,000 a day.

Answer: D

**Topic: Efficiency of a Competitive Market**

**Level 4: Advanced Calculations and Predictions**

181) If the marginal cost of producing every quantity decreases, all the following occur EXCEPT ____.

A) minimum supply price does not change  
B) the marginal benefit of the last unit bought changes  
C) the consumer surplus increases  
D) the efficient quantity increases

Answer: A

**Topic: Efficiency of a Competitive Market**

**Level 4: Advanced Calculations and Predictions**

182) Which of the following statements about a competitive market is INCORRECT?

A) A price ceiling makes the market more efficient.  
B) A price floor makes the market less efficient.  
C) Overproduction reduces consumer surplus and producer surplus.  
D) Underproduction creates a deadweight loss.

Answer: A

**Topic: Efficiency and Inefficiency**

**Level 4: Advanced Calculations and Predictions**

183) The schedules in the table give the marginal benefit and marginal cost of a DVD. If there are no external benefits or external costs, the efficient number of DVDs to produce is ____ a week.

<table>
<thead>
<tr>
<th>Quantity (DVDs per week)</th>
<th>Marginal benefit (dollars per DVD)</th>
<th>Marginal cost (dollars per DVD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>16</td>
<td>24</td>
</tr>
</tbody>
</table>

Answer: B
<table>
<thead>
<tr>
<th>Quantity (DVDs per week)</th>
<th>Marginal benefit (dollars per DVD)</th>
<th>Marginal cost (dollars per DVD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>16</td>
<td>24</td>
</tr>
</tbody>
</table>

**Topic: Efficiency and Inefficiency**

**Level 4: Advanced Calculations and Predictions**

184) The schedules in the table give the marginal benefit and marginal cost of a DVD. At the efficient quantity, the minimum supply-price of a DVD is ____ and the value of a DVD is ____.

A) $16; $24  
B) $16; $20  
C) $20; $16  
D) $20; $20

Answer: D

<table>
<thead>
<tr>
<th>Quantity (DVDs per week)</th>
<th>Marginal benefit (dollars per DVD)</th>
<th>Marginal cost (dollars per DVD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>16</td>
<td>24</td>
</tr>
</tbody>
</table>

**Topic: Consumer Surplus and Producer Surplus**

**Level 4: Advanced Calculations and Predictions**

185) The schedules in the table give the marginal benefit and marginal cost of a DVD. At the efficient quantity, the minimum supply-price of a DVD is ____ a week, and producer surplus is ____ a week.

A) $20; $20  
B) $66; $54  
C) $4; $4  
D) $6; $6

Answer: D

<table>
<thead>
<tr>
<th>Quantity (DVDs per week)</th>
<th>Marginal benefit (dollars per DVD)</th>
<th>Marginal cost (dollars per DVD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>16</td>
<td>24</td>
</tr>
</tbody>
</table>

**Topic: Efficiency and Inefficiency**

**Level 4: Advanced Calculations and Predictions**

186) The schedules in the table give the marginal benefit and marginal cost of a DVD. If the opportunity cost of producing a DVD increases by $4, then the efficient number of DVDs is ____ a week.

A) 1  
B) 2  
C) 5  
D) 4

Answer: B

<table>
<thead>
<tr>
<th>Quantity (DVDs per week)</th>
<th>Marginal benefit (dollars per DVD)</th>
<th>Marginal cost (dollars per DVD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>16</td>
<td>24</td>
</tr>
</tbody>
</table>

**Topic: Efficiency and Inefficiency**

**Level 4: Advanced Calculations and Predictions**

187) The schedules in the table give the marginal benefit and marginal cost of a DVD. If the number of DVD produced is cut to 2 a week, then the ____.

A) minimum supply-price of the second DVD is $18  
B) price is $18 a DVD  
C) opportunity cost of the second DVD is $22  
D) value of the second DVD is $20

Answer: A
Topic: Consumer Surplus  
Level 4: Advanced Calculations and Predictions  
188) The figure illustrates the market for bagels. If the number of bagels produced is cut from 20 to 10 an hour and the price rises to $2.00 per bagel, consumer surplus decreases by ____.
  A) $5.00 an hour  
  B) $2.50 an hour  
  C) $7.50 an hour  
  D) $0.50 a bagel  
Answer: C

Topic: Deadweight Loss  
Level 4: Advanced Calculations and Predictions  
189) The figure illustrates the market for bagels. If the number of bagels is cut from 20 to 10 an hour, the deadweight loss is ____.
  A) $0.50 a bagel  
  B) -$5.00 an hour  
  C) $0 an hour  
  D) $5.00 an hour  
Answer: D
The figure illustrates the market for bagels. If the number of bagels is increased from 20 to 30 an hour, consumer surplus plus producer surplus ____ and deadweight loss is ____.

A) decreases; negative  
B) decreases; positive  
C) increases; positive  
D) increases; negative

Answer: B