Housing Markets and Rent Ceilings

Topic: Market Response to a Decrease in Supply
Skill: Analytical
1) The short-run impact of the San Francisco earthquake on the housing market shifted the
A) short-run supply curve of housing leftward.
B) long-run supply curve of housing leftward.
C) short-run supply curve of housing rightward.
D) long-run supply curve of housing rightward.
Answer: A

Topic: Market Response to a Decrease in Supply
Skill: Recognition
2) The immediate result of the 1906 San Francisco earthquake on the housing market was to decrease
A) the short-run supply, raise rents, and decrease the equilibrium quantity.
B) the short-run supply, reduce rents, and increase the equilibrium quantity.
C) housing demand, reduce rents, and decrease the equilibrium quantity.
D) housing demand, raise rents, and increase the equilibrium quantity.
Answer: A

Topic: Long-Run Adjustments to a Decrease in Supply
Skill: Analytical
3) If after the 1906 San Francisco earthquake the cost of building an apartment was the same regardless of whether there were 50,000 or 150,000 apartments in existence, then the
A) short-run supply of apartments was perfectly elastic.
B) short-run supply of apartments was perfectly inelastic.
C) long-run supply of apartments was perfectly elastic.
D) long-run supply of apartments was perfectly inelastic.
Answer: C

Topic: Long-Run Adjustments to a Decrease in Supply
Skill: Analytical
4) After the initial decrease in supply, as part of the long-run adjustment of the housing market following the San Francisco earthquake, the
A) long-run supply curve shifted leftward.
B) long-run supply curve shifted rightward.
C) short-run supply curve shifted rightward.
D) short-run supply curve shifted even more leftward.
Answer: C

Topic: A Housing Market
Skill: Analytical
5) In the figure above, the initial demand curve is $D_0$. There are no rent ceilings nor rent floors. Thus, the initial equilibrium monthly rent is
A) $100 per month.
B) $200 per month.
C) $300 per month.
D) $400 per month.
Answer: C
6) In the figure above, the demand curve shifts rightward from $D_0$ to $D_1$. There are no rent controls. In the short run, the increase in demand results in
A) higher rents and a decrease in the equilibrium quantity.
B) lower rents and a decrease in the equilibrium quantity.
C) higher rents and an increase in the equilibrium quantity.
D) lower rents and an increase in the equilibrium quantity.
Answer: C

7) In the figure above, the demand curve shifts rightward from $D_0$ to $D_1$ so that $D_1$ is the relevant demand curve. Suppose the government imposes a rent ceiling of $300 per month. In the short run there will be
A) a shortage of 500,000 apartments.
B) a shortage of 400,000 apartments.
C) a shortage of 200,000 apartments.
D) no shortage nor a surplus of apartments.
Answer: C

8) In the figure above, the demand curve shifts rightward from $D_0$ to $D_1$ so that $D_1$ is the relevant demand curve. Suppose the government imposes a rent ceiling of $300 per month. In the short run there will be a
A) deadweight loss created.
B) a reduction in renters’ search activities.
C) an elimination of a black market.
D) an increased number apartments rented.
Answer: A

9) In the figure above, the demand curve shifts rightward from $D_0$ to $D_1$ so that $D_1$ is the relevant demand curve. Suppose the government imposes a rent ceiling of $300 per month. In the short run there will be
A) a shortage and an increase in search costs.
B) a shortage and a decrease in search costs.
C) a surplus and an increase in search costs.
D) a surplus and a decrease in search costs.
Answer: A

10) In the figure above, the demand curve shifts rightward from $D_0$ to $D_1$ so that $D_1$ is the relevant demand curve. Suppose the government imposes a rent ceiling of $500 per month. In the short run there will be
A) a surplus of apartments.
B) a shortage of 200,000 apartments.
C) a shortage of 300,000 apartments.
D) neither a shortage nor a surplus of apartments.
Answer: D

11) A rightward shift of the demand curve for apartments will
A) stimulate investment in buildings, thus reducing the original rise in rents.
B) stimulate investment in buildings, thus reducing the original fall in rents.
C) discourage investment in buildings, thus increasing the original rise in rents.
D) discourage investment in buildings, thus increasing the original fall in rents.
Answer: A
12) In the above figure, with demand given by $D_0$, the equilibrium in an unregulated market will be
A) 150,000 apartments rented at $150.
B) 150,000 apartments rented at $200.
C) 200,000 rooms rented at $200.
D) 250,000 rooms rented at $150.
Answer: A

13) In the figure above, if the demand for apartments increases from $D_0$ to $D_1$ and the market is unregulated, in the short run the number of apartments rented will
A) remain unchanged and the rent will rise to $200.
B) increase to 200,000 and the rent will remain at its initial level.
C) increase to 250,000 and the rent will rise to $200.
D) increase to 200,000 and the rent will rise to $200.
Answer: D

14) In the figure above, if the demand for apartments increases from $D_0$ to $D_1$ and the market is unregulated, in the long run the number of apartments rented will
A) remain unchanged from the initial quantity and the rent will rise to $200.
B) increase to 250,000.
C) increase to 200,000 and the rent will rise to $200.
D) increase to 200,000 and rent will be $150.
Answer: B

15) In the figure above, if the demand for apartments from $D_0$ to $D_1$ and there is a strictly enforced rent ceiling of $150 per apartment,
A) the number of rooms rented will quickly decrease by 50,000.
B) the number of rooms rented will quickly increase by 50,000.
C) there will be a shortage of apartments.
D) there will be a surplus of apartments on the market.
Answer: C

16) In the figure above, if the demand for apartments increases from $D_0$ to $D_1$ and there is a strictly enforced rent ceiling of $150 per apartment, then the new quantity supplied will be
A) greater than the initial quantity supplied before the increase in demand, but the rent will be unchanged.
B) greater than the initial quantity supplied before the increase in demand, and the rent will increase.
C) the same as the initial quantity supplied before the increase in demand.
D) less than the initial quantity supplied before the increase in demand.
Answer: C
17) The effect of a rent ceiling set above the equilibrium price
A) is powerful, eliminating price as a regulator of quantity supplied and quantity demanded.
B) is powerful, strengthening price as a regulator of quantity supplied and quantity demanded.
C) encourages the development of black markets.
D) is essentially nonexistent.
Answer: D

18) A rent ceiling below the equilibrium rent will encourage
A) a more efficient allocation of housing.
B) a larger number of apartments rented.
C) no change in the number of apartments rented.
D) increased search time and black markets.
Answer: D

19) A rent ceiling set above the equilibrium rent
A) restricts the quantity demanded but not the quantity supplied.
B) restricts the quantity supplied but not the quantity demanded.
C) restricts both the quantity demanded and the quantity supplied.
D) has no effect.
Answer: D

20) A rent ceiling set below the equilibrium price
A) restricts the quantity demanded but not the quantity supplied.
B) restricts the quantity supplied but not the quantity demanded.
C) restricts both the quantity demanded and the quantity supplied.
D) has no effect.
Answer: B

21) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month. This will lead to a
A) shortage of 1000 apartments.
B) shortage of 2000 apartments.
C) surplus of 1000 apartments.
D) surplus of 2000 apartments.
Answer: B

22) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month, which causes a shortage. Suppose that apartments are a normal good and incomes rise. The increase in income will lead to the
A) shortage shrinking.
B) shortage remaining the same size.
C) shortage growing.
D) rental price increasing.
Answer: C
23) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month, which causes a shortage. Suppose that apartments are an inferior good and incomes rise. The increase in income will lead to the
A) shortage shrinking.
B) shortage remaining the same size.
C) shortage growing.
D) rental price increasing.
Answer: A

24) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month. Now suppose that demand increases. The increase in demand will result in the quantity supplied
A) increasing.
B) staying the same.
C) decreasing.
D) increasing, staying the same, or decreasing depending on how much demand increases.
Answer: B

25) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month. If the law is strictly enforced, the maximum for which an apartment will rent on the black market is
A) less than $600 per month.
B) $600 per month.
C) $700 per month.
D) more than $700 per month.
Answer: C

26) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month. The loss of producer surplus as a result of the price ceiling is
A) $50,000 per month.
B) $250,000 per month.
C) $500,000 per month.
D) more than $500,000 per month.
Answer: B

27) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month. The loss of producer surplus is
A) smaller than the gain in consumer surplus.
B) larger than the gain in consumer surplus.
C) the same size as the gain in consumer surplus.
D) could be smaller than, larger than, or the same size as the gain in consumer surplus.
Answer: B

28) In the figure above, originally the apartment rental market is in short run and long run equilibrium with a rental price of $600 per month. Then the government imposes a rent ceiling of $500 per month. The deadweight loss is borne by
A) the producers only.
B) the consumers only.
C) all producers and some consumers.
D) all consumers and some producers.
Answer: C

29) With rent controls, which of the following is most likely to occur?
A) Decreased search activity
B) Black market activity
C) A building boom
D) A housing surplus
Answer: B
30) In the above figure, a rent ceiling of $300 per month would
A) not affect the equilibrium quantity.
B) result in a surplus of 7000 units.
C) result in a shortage of 7000 units.
D) result in a shortage of 2000 units.
Answer: C

31) In the above figure, a rent ceiling of $500 per month would
A) not affect the equilibrium quantity.
B) cause a shortage.
C) raise the rent and cause a surplus.
D) reduce the rent and create a surplus.
Answer: A

32) The above figure shows the demand and supply curves for housing in City B. What would be the effects of a rent ceiling equal to $1000 per month?
A) a surplus equal to 3000 apartments.
B) a surplus equal to 250 apartments.
C) a shortage equal to 3000 apartments.
D) nothing because the rent ceiling has no effect on the equilibrium price and quantity.
Answer: D
**Topic: An Unregulated Housing Market**

**Skill: Analytical**

33) The above figure shows the apartment market in Big City. What is the equilibrium rent in Big City?

A) $1500  
B) $1350  
C) $1250  
D) $1125  

**Answer: B**

**Topic: A Regulated Housing Market**

**Skill: Analytical**

34) The above figure shows the apartment market in Big City. What could the Big City Housing Authority do if it wants to reduce the rents paid by its citizens?

A) Impose a rent floor above $1350.  
B) Impose a rent floor below $1350.  
C) Impose a rent ceiling above $1350.  
D) Impose a rent ceiling below $1350.  

**Answer: D**

35) The above figure shows the apartment market in Big City. If a government policy results in a shortage of 1,500 apartments in the Big City rental market, it is most likely that the Housing Authority has imposed

A) a rent ceiling of $1500.00 monthly.  
B) a rent ceiling of $1000.00 monthly.  
C) a rent floor of $1500.00 monthly.  
D) a rent floor of $1000.00 monthly.  

**Answer: B**

36) The above figure shows the apartment market in Big City. A rent ceiling of $1400 per month would

A) create a black market.  
B) increase search activity.  
C) not affect the market.  
D) create a surplus of apartments.  

**Answer: C**

37) The above figure shows the apartment market in Big City. A rent ceiling of $1100 would

A) not create a black market.  
B) create a shortage of apartments.  
C) decrease search activity.  
D) shift the supply curve rightward.  

**Answer: B**

**Topic: Search Activity**

**Skill: Conceptual**

38) Effective rent controls

A) increase search activity.  
B) decrease search activity.  
C) have no effect on search activity.  
D) shift the long-run housing supply curve rightward.  

**Answer: A**
39) One consequence of rent ceilings is that
   A) a surplus of housing units develops.
   B) renters are no longer exploited by landlords.
   C) it makes the long-run housing supply more elastic.
   D) search costs for housing increase.
   **Answer: D**

40) With rent controls, what mechanism might arise to bring about an equilibrium?
   A) Decreased search costs.
   B) Black market activity.
   C) Increased advertising by landlords.
   D) More favorable leases offered to tenants.
   **Answer: B**

41) One common effect of rent ceilings in big cities is
   A) that landlords build more apartments.
   B) that landlords charge “key money,” high payments charged to new tenants for new locks and keys.
   C) to equalize the quantity of apartments demanded and the quantity supplied in neighborhoods.
   D) to reduce the search activity by those seeking shelter.
   **Answer: B**

42) The stricter the enforcement of a price ceiling, the
   A) smaller is the difference between the black market price and the legal market price of the good.
   B) larger is the difference between the black market price and the legal market price of the good.
   C) greater is the amount of the good available in total, from either the legal market or the black market.
   D) Both answers B and C are correct.
   **Answer: B**

43) Price ceilings in the housing market create
   A) efficiency, but often cause housing to deteriorate.
   B) efficiency and lead to the building of more housing.
   C) inefficiency and often cause housing to deteriorate.
   D) inefficiency, but lead to the building of more housing.
   **Answer: C**

44) A price ceiling set below the equilibrium price
   ___________ search activity and ___________ the use of black markets.
   A) increases; increases
   B) increases; decreases
   C) decreases; increases
   D) decreases; decreases
   **Answer: A**

45) Assume that your state government has placed a price ceiling of $.20 per kilowatt hour on electricity. The equilibrium price per kilowatt hour for electricity is $.25. This action will result in
   A) surplus of electricity in the electricity market.
   B) an increase in the price of electricity to $.25 per kilowatt hour.
   C) an increase in producer surplus.
   D) a deadweight loss occurring.
   **Answer: D**
The Labor Market and a Minimum Wage

**Topic: The Labor Market and the Minimum Wage**
**Skill: Conceptual**

48) The ability of workers to freely enter and leave the low-skilled labor market makes the
A) short-run supply elastic.
B) long-run supply elastic.
C) short-run supply inelastic.
D) long-run supply inelastic.

**Answer: B**

**Topic: The Labor Market**
**Skill: Recognition**

49) In the market for low-skilled workers, labor-saving technology shifts the labor
A) demand curve leftward and lowers the wage rate.
B) supply curve leftward and raises the wage rate.
C) demand curve rightward and raises the wage rate.
D) supply curve rightward and lowers the wage rate.

**Answer: A**

**Topic: The Labor Market**
**Skill: Recognition**

50) In the absence of a minimum wage, a leftward shift of the supply curve
A) raises the equilibrium wage.
B) lowers the equilibrium wage.
C) increases demand.
D) None of the above answers is correct.

**Answer: A**

**Topic: The Labor Market**
**Skill: Analytical**

51) In the short run, the supply of low-skilled labor tends to be
A) perfectly elastic.
B) perfectly inelastic.
C) more elastic than in the long run.
D) less elastic than in the long run.

**Answer: D**
52) In the absence of a minimum wage, a decrease in
the demand for low-skilled labor will ____ the
wage rate when the supply of low-skilled labor is
____.
A) lower; inelastic
B) lower; perfectly elastic
C) raise; inelastic
D) raise; perfectly elastic
Answer: A

53) In the long run the supply of low-skilled labor is
A) inelastic and is less elastic than in the short run.
B) elastic but is less elastic than in the short run.
C) inelastic but is more elastic than in the short run.
D) elastic and is more elastic than in the short run.
Answer: D

54) A price floor
A) always results in a surplus.
B) always results in a shortage.
C) results in a surplus if the floor price is greater
than the equilibrium price.
D) results in a shortage if the floor price is greater
than the equilibrium price.
Answer: C

55) An effective minimum wage is a price ____ that
____ the quantity of low-skilled labor demanded.
A) ceiling; decreases
B) ceiling; increases
C) floor; decreases
D) floor; increases
Answer: C

56) An effective minimum wage is a price ____ that
____ the quantity of low-skilled labor demanded.
A) ceiling; decreases
B) ceiling; increases
C) floor; decreases
D) floor; increases
Answer: C

57) The intent of minimum wage laws is to
A) lower the wages of highly skilled workers.
B) increase the incentive to work harder.
C) increase the quantity of labor hired.
D) raise the wages of the low-skilled workers.
Answer: D

58) Strong minimum wage regulations
A) encourage markets to adjust to change.
B) discourage markets from adjusting to change.
C) are favored by owners of fast-food restaurants.
D) are favored by owners of supermarkets.
Answer: B

59) If the minimum wage is set above the equilibrium
wage, a supply and demand diagram of the low-
skilled labor market will show unemployment as
A) a vertical distance.
B) a horizontal distance.
C) the area of a rectangle.
D) the area of a triangle.
Answer: B
### Topic: The Labor Market and the Minimum Wage
#### Skill: Analytical

60) In the table above, what is the equilibrium wage rate in an unregulated market?

A) $4.00 per hour.
B) $5.00 per hour.
C) $6.00 per hour.
D) $7.00 per hour.

**Answer: C**

### Topic: The Minimum Wage
#### Skill: Analytical

61) In the table above, what is the level of unemployment (in millions of workers) if the minimum wage is set at $4 per hour?

A) 0.
B) 1.
C) 3.
D) 4.

**Answer: A**

62) In the table above, the market is in equilibrium. Then a minimum wage is set at $7 per hour. The number of unemployed workers will be

A) 0.
B) 2 million.
C) 4 million.
D) 6 million.

**Answer: B**

63) In the table above, the market is in equilibrium. Then a minimum wage is set at $7 per hour. The number of workers who lose their jobs will be

A) 0.
B) 1 million.
C) 3 million.
D) 5 million.

**Answer: B**

### Topic: The Minimum Wage
#### Skill: Analytical

64) In the figure above, the shift from $D_0$ to $D_1$ could be caused by

A) imposing a minimum wage of $4.00.
B) imposing a minimum wage of $5.00.
C) introducing labor-saving technology.
D) retraining workers.

**Answer: C**

65) In the figure above, $D_0$ is the demand for labor curve. Imposing a minimum wage of $6 per hour will initially

A) increase employment from 20 to 40 million hours per year.
B) increase employment from 30 to 40 million hours per year.
C) decrease employment from 40 to 20 million hours per year.
D) decrease employment from 30 to 20 million hours per year.

**Answer: D**
66) In the figure above, $D_0$ is the demand for labor curve. Imposing a minimum wage of $3 per hour will
A) have no effect on the market.
B) result in unemployment.
C) result in a labor shortage.
D) immediately shift the demand curve to $D_1$.
Answer: A

67) The market for unskilled labor is illustrated in the figure above. The market is in equilibrium when a minimum wage of $5 per hour is imposed. Employment will fall by
A) 0 hours.
B) 10 million hours per year.
C) 20 million hours per year.
D) 30 million hours per year.
Answer: C

68) The market for unskilled labor is illustrated in the figure above. The market is in equilibrium when a minimum wage of $3 per hour is imposed. Employment will decrease by
A) 0 hours.
B) 10 million hours per year.
C) 20 million hours per year.
D) 30 million hours per year.
Answer: A

69) The market for unskilled labor is illustrated in the figure above. The market is in equilibrium when a minimum wage of $5 per hour is imposed. Unemployment will equal
A) 0 hours.
B) 10 million hours per year.
C) 20 million hours per year.
D) 30 million hours per year.
Answer: D

70) The market for unskilled labor is illustrated in the figure above. The market is in equilibrium when a minimum wage of $3 per hour is imposed. Unemployment will equal
A) 0 hours.
B) 10 million hours per year.
C) 20 million hours per year.
D) 30 million hours per year.
Answer: A

71) The market for unskilled labor is illustrated in the figure above. If a minimum wage of $5 per hour is imposed, an employer who breaks the law will find a worker who is willing to work for
A) less than or equal to $4 per hour.
B) between $4 and $5 per hour.
C) more than or equal to $5 per hour.
D) None of the above because workers are not willing to supply labor.
Answer: A
Topic: The Labor Market  
Skill: Recognition  
72) In the above figure, without a minimum wage, the equilibrium quantity is of labor employed ____ million hours, and the equilibrium wage rate is ____ per hour.
A) 100; $2  
B) 200; $4  
C) 300; $6  
D) 400; $8  
Answer: B  

Topic: Minimum Wage  
Skill: Conceptual  
73) In the above figure, if the minimum wage is set at $6 per hour, what quantity of labor is employed?
A) 100 million hours.  
B) 200 million hours.  
C) 300 million hours.  
D) 400 million hours.  
Answer: A  

Topic: Minimum Wage  
Skill: Conceptual  
74) In the above figure, if the minimum wage is set at $2 per hour, what quantity of labor is employed?
A) 100 million hours.  
B) 200 million hours.  
C) 300 million hours.  
D) 400 million hours.  
Answer: B  

Topic: The Minimum Wage and Unemployment  
Skill: Conceptual  
75) In the above figure, at what wage rate is the unemployment level equal to 200 million hours?
A) $2 per hour.  
B) $4 per hour.  
C) $6 per hour.  
D) $8 per hour.  
Answer: C
**Topic: Minimum Wage**

**Skill: Conceptual**

77) In the figure above, if the minimum wage is $2 per hour, then

A) the quantity of labor supplied is 4 million hours and the quantity of labor demanded is 2 million hours.

B) the quantity of labor demanded is 4 million hours and the quantity of labor supplied is 2 million hours.

C) unemployment is 1 million hours.

D) the quantity of labor supplied is 3 million hours and the quantity of labor demanded is 3 million hours.

**Answer: D**

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**Topic: The Minimum Wage**

**Skill: Conceptual**

78) The above figure illustrates the labor market for local fast food restaurants. What would be the effects of a minimum wage imposed at $5.50 per hour?

A) unemployment equal to 400 hours.

B) a shortage of 200 hours.

C) a surplus of 200 hours.

D) nothing because the minimum wage has no effect on the equilibrium price and quantity.

**Answer: A**

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**Topic: The Minimum Wage**

**Skill: Conceptual**

79) The above figure illustrates the labor market for local fast food restaurants. What would be the effects of a minimum wage imposed at $4 per hour?

A) a shortage of 200 hours

B) a shortage of 100 hours

C) a surplus of 200 hours

D) nothing because the minimum wage has no effect on the equilibrium price and quantity.

**Answer: D**

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**Topic: The Minimum Wage in Practice**

**Skill: Recognition**

80) The Fair Labor Standards Act directly

A) imposes rent ceilings.

B) imposes minimum wages.

C) imposes price ceilings.

D) reduces the use of new technologies.

**Answer: B**

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**Topic: The Minimum Wage in Practice**

**Skill: Conceptual**

81) The Fair Labor Standards Act specifically outlaws

A) unregulated industries.

B) importing foreign goods.

C) violating price ceilings.

D) paying less than a minimum wage.

**Answer: D**
**Topic: The Minimum Wage in Practice**  
**Skill: Recognition**

82) In 2003 the Fair Labor Standards Act set the federal minimum wage rate at  
A) $3.55 per hour.  
B) $4.35 per hour.  
C) $5.15 per hour.  
D) $5.95 per hour.  
**Answer: C**

**Topic: The Minimum Wage in Practice**  
**Skill: Recognition**

83) In recent decades the federal minimum wage rate has averaged between ____ percent of the average wage for production workers.  
A) 10 to 20  
B) 35 to 50  
C) 50 to 75  
D) 75 to 90  
**Answer: B**

**Topic: The Minimum Wage in Practice**  
**Skill: Conceptual**

84) The group affected most adversely by a minimum wage law is  
A) high-wage, highly skilled workers.  
B) older workers across wage levels.  
C) low-wage, low-skilled workers.  
D) middle-aged workers across wage levels.  
**Answer: C**

**Topic: Inefficiency of the Minimum Wage**  
**Skill: Conceptual**

85) A binding minimum wage creates  
A) efficiency because it increases most workers’ wages.  
B) efficiency because few workers lose their jobs.  
C) inefficiency because it causes too much job search.  
D) inefficiency because it decreases productive unemployment.  
**Answer: C**

**Topic: Market Intervention**  
**Skill: Analytical**

86) In the above figure, a price ceiling of $4 would  
A) result in a shortage in the long run.  
B) result in a surplus in the long run.  
C) have no effect.  
D) result in a surplus in the short run but have no effect in the long run.  
**Answer: C**

**Topic: Market Intervention**  
**Skill: Analytical**

87) In the above figure, a price ceiling of $2 would  
A) cause a shortage.  
B) cause a surplus.  
C) have no effect.  
D) cause the demand curve to shift leftward.  
**Answer: A**

**Topic: Market Intervention**  
**Skill: Analytical**

88) In the above figure, a price floor of $4  
A) leads to a shortage.  
B) leads to a surplus.  
C) has no effect.  
D) shifts the demand curve leftward.  
**Answer: B**
89) In the above figure, a black market emerges with a
A) price ceiling of $4.
B) price floor of $2.
C) price floor of $4.
D) a rationed quantity 30.
Answer: C

90) A price floor set below the equilibrium price
A) restricts the quantity demanded but not the quantity supplied.
B) restricts the quantity supplied but not the quantity demanded.
C) restricts both the quantity demanded and the quantity supplied.
D) has no effect.
Answer: D

Taxes

91) A sales tax is imposed on the sellers of gasoline. This tax shifts
A) the supply of gasoline curve leftward.
B) the supply of gasoline curve rightward.
C) the demand for gasoline curve leftward.
D) both the supply of gasoline and demand for gasoline curves leftward.
Answer: A

92) In general, how a sales tax is divided between buyers and sellers is determined by
A) the government’s choice of whom to tax.
B) who the law says must pay the tax.
C) the elasticities of supply and demand.
D) the revenue needs of government.
Answer: C

93) In general, how a sales tax is divided between buyers and sellers is determined by
A) the elasticity of demand only.
B) the elasticity of supply only.
C) both the elasticity of demand and the elasticity of supply.
D) neither the elasticity of demand nor the elasticity of supply.
Answer: C

94) The demand and the supply for a good are each neither perfectly elastic nor perfectly inelastic. Imposing a sales tax on sellers of the good is
A) paid by only buyers.
B) paid by only sellers.
C) paid by both buyers and sellers.
D) paid by neither buyers nor sellers.
Answer: C

95) In the above figure, the price paid by the buyer before the tax is ____ per compact disc, and the price paid by the buyer after the tax is ____ per compact disc.
A) $20; $20
B) $20; $30
C) $30; $20
D) $30; $30
Answer: B
**Topic: Who Pays the Sales Tax?**  
**Skill: Conceptual**

96) In the above figure, the price received by the seller before the tax is ____ per compact disc, and the price received and kept by the seller after the tax is ____ per compact disc.

A) $20; $20  
B) $20; $10  
C) $30; $20  
D) $30; $10

**Answer: B**

**Topic: Who Pays the Sales Tax?**  
**Skill: Conceptual**

97) In the above figure, what is the amount of the tax per compact disc?

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

**Answer: B**

**Topic: Government Revenue**  
**Skill: Analytical**

98) In the above figure, what is the amount of the total tax revenue collected by the government?

A) $20 million  
B) $40 million  
C) $200 million  
D) $400 million

**Answer: D**

**Topic: Tax Incidence**  
**Skill: Analytical**

99) In the above figure, who pays the larger share of the tax?

A) Buyers  
B) Sellers  
C) Buyers and sellers each pay the same amount of the tax and each pays $10 per compact disc.  
D) Buyers and sellers each pay the same amount of the tax, but the amount each pays is different than $10 per compact disc.

**Answer: C**

**Topic: Who Pays the Sales Tax?**  
**Skill: Analytical**

100) In the figure above, if a tax of $2 per widget is imposed on sellers, then the price of widgets paid by the buyer will be

A) more than or equal to $8.  
B) between $8 and $6.  
C) $6.  
D) less than $6.

**Answer: B**

**Topic: Who Pays the Sales Tax?**  
**Skill: Analytical**

101) In the figure above, if a tax of $2 per widget is imposed on sellers, then the after-tax amount per widget received by the seller will be

A) more than or equal to $8.  
B) between $8 and $6.  
C) $6.  
D) less than $6.

**Answer: D**
Topic: Who Pays the Sales Tax?
Skill: Analytical
102) In the above figure, the amount of the tax per unit imposed on the sellers is
A) $0.50.
B) $1.00.
C) $1.50.
D) $2.00.
Answer: D

103) In the above figure, the amount of tax revenue is
A) $2000.
B) $4000.
C) $6000.
D) $8000.
Answer: B

104) In the above figure, the tax incidence is
A) that most of it is paid by the buyers.
B) that most of it is paid by the sellers.
C) equal so that the buyers and sellers pay the same amount.
D) that neither the buyers nor the sellers pay it.
Answer: C

Topic: Taxes and Efficiency
Skill: Analytical
105) In the above figure, the deadweight loss due to the tax is
A) $1000.
B) $2000.
C) $4000.
D) $8000.
Answer: A

Topic: Tax Incidence and the Elasticity of Demand
Skill: Conceptual
106) The more elastic the demand for a good, the
A) less a sales tax lowers the price paid by buyers.
B) more a sales tax lowers the price paid by buyers.
C) less a sales tax raises the price paid by buyers.
D) more a sales tax raises the price paid by buyers.
Answer: C

107) A sales tax is divided so that
A) the buyers pay the full amount if demand is perfectly elastic.
B) the buyers pay the full amount if supply is perfectly inelastic.
C) the sellers pay the full amount if supply is perfectly elastic.
D) the sellers pay the full amount if demand is perfectly elastic.
Answer: D

108) A sales tax is divided so that buyers pay the full amount if
A) demand has unitary elasticity.
B) supply has unitary elasticity.
C) demand is perfectly inelastic.
D) supply is perfectly inelastic.
Answer: C

109) If demand is perfectly elastic, a sales tax
A) is paid by only the buyers.
B) is paid by only the sellers.
C) is paid by both the buyers and sellers.
D) None of the above answers is correct.
Answer: B
110) If a tax is imposed in a market in which demand is perfectly inelastic
   A) the buyer pays the entire tax.
   B) the seller pays the entire tax.
   C) the buyer and the seller both pay a portion of the tax.
   D) neither the buyer nor the seller pays the tax.
   Answer: A

111) Consider the market for heart transplants. The demand for a heart transplant is perfectly inelastic and the supply is upward sloping. If a $1,000 tax per transplant tax is imposed on buyers (the recipients), how will the tax be divided between the buyer and seller?
   A) The seller will pay the entire tax
   B) The buyer will pay the entire tax
   C) The tax will be evenly divided between the seller and buyer
   D) More information is needed to determine how the tax is split.
   Answer: B

112) Consider the market for purple magic markers. The demand for purple magic markers is perfectly elastic and the supply is upward sloping. If sellers of purple magic markers are taxed $1 per marker, how will the tax be divided between the buyer and seller?
   A) The seller will pay the entire tax
   B) The buyer will pay the entire tax
   C) The tax will be evenly divided between the seller and buyer
   D) More information is needed to determine how the tax is split.
   Answer: A

113) If demand is very inelastic, a sales tax imposed on sellers will cause the price plus the tax paid by buyers of the good
   A) to rise by almost the amount of the tax.
   B) to rise by more than the amount of the tax.
   C) to fall by almost the amount of the tax.
   D) to fall by more than the amount of the tax.
   Answer: A

114) In the figure above, imposing a tax on the sellers of the product results in a division in which
   A) all of the tax is paid by the buyers.
   B) all of the tax is paid by the sellers.
   C) the buyers and sellers pay the same amount.
   D) neither the buyers nor the sellers pay the tax.
   Answer: B
### Product Price Elasticity of Demand

<table>
<thead>
<tr>
<th>Product</th>
<th>Price elasticity of demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chewing gum</td>
<td>0.61</td>
</tr>
<tr>
<td>Candy bar</td>
<td>1.75</td>
</tr>
<tr>
<td>Soda</td>
<td>1.50</td>
</tr>
<tr>
<td>Newspaper</td>
<td>0.34</td>
</tr>
</tbody>
</table>

**Topic: Tax Incidence and the Elasticity of Demand**

**Skill: Recognition**

115) You are in the business of retailing chewing gum, candy bars, sodas and newspapers. It has just come to your attention that the governor plans to impose a state excise tax on one of these commodities. As a profit-minded business person who seeks to avoid taxes whenever possible, based on the price elasticity of demands in the above table, which product would you prefer to have taxed?

A) Chewing gum  
B) Candy bars  
C) Sodas  
D) Newspapers

**Answer:** D

**Topic: Tax Incidence and the Elasticity of Demand**

**Skill: Recognition**

116) You are in the business of retailing chewing gum, candy bars, sodas and newspapers. It has just come to your attention that the governor plans to impose a state excise tax on one of these commodities. As a profit-minded business person who seeks to avoid taxes whenever possible, based on the price elasticity of demand in the above table, which commodity would you least like to have taxed?

A) Chewing gum  
B) Candy bars  
C) Sodas  
D) Newspapers

**Answer:** B

**Topic: Tax Incidence and the Elasticity of Demand**

**Skill: Recognition**

117) A tax is imposed on the sellers of a product. The consumer will pay the full amount of the tax if

A) demand is elastic.  
B) demand is inelastic.  
C) demand is perfectly elastic.  
D) demand is perfectly inelastic.

**Answer:** D

**Topic: Tax Incidence and the Elasticity of Demand**

**Skill: Analytical**

118) In the above figure, the imposition of a $0.25 sales tax on sellers will

A) raise the equilibrium price of a hotdog by $0.25.  
B) lower the equilibrium price of a hotdog by $0.25.  
C) raise the equilibrium price of a hotdog by $0.125.  
D) None of the above answers are correct.

**Answer:** D

**Topic: Tax Incidence and the Elasticity of Supply**

**Skill: Analytical**

119) A good has a downward-sloping demand curve and a perfectly elastic supply. Imposing a sales tax on the sellers of $1 on the good

A) raises the price paid by demanders by more than $1.00.  
B) raises the price paid by demanders by $1.00.  
C) raises the price paid by demanders by less than $1.00.  
D) does not change the price paid by demanders.

**Answer:** B
**Topic: Tax Incidence and the Elasticity of Supply**
**Skill: Analytical**

120) A good has a perfectly inelastic supply and a downward sloping demand curve. Imposing a sales tax on the sellers of $1 on the good

A) raises the price paid by demanders by more than $1.00.
B) raises the price paid by demanders by $1.00.
C) raises the price paid by demanders by less than $1.00.
D) does not change the price paid by demanders.

**Answer: D**

**Topic: Tax Incidence and the Elasticity of Supply**
**Skill: Conceptual**

121) A sales tax will be divided so that

A) the buyers pay the full amount if supply is perfectly inelastic.
B) the sellers pay the full amount if supply is perfectly inelastic.
C) the sellers pay the full amount if supply is perfectly elastic.
D) both buyers and sellers pay some of the tax if supply is perfectly elastic.

**Answer: B**

122) In the figure above, imposing a tax on the product results in a division in which

A) all of the tax is paid by the buyers.
B) all of the tax is paid by the sellers.
C) the buyers and sellers pay the same amount.
D) neither the buyers nor the sellers pay the tax.

**Answer: A**

**Topic: Tax Incidence**
**Skill: Analytical**

123) Good A has a perfectly inelastic demand and an upward-sloping supply curve. Good B has a perfectly inelastic supply and a downward-sloping demand curve. If the same sales tax is imposed on the sellers of both good A and good B,

A) the price paid by buyers of good A rises by more than the price paid by buyers of good B.
B) the price paid by buyers of good B rises by more than the price paid by buyers of good A.
C) the price paid by buyers of good A rises by the same amount as the price paid by buyers of good B.
D) more information is needed to determine whether the price paid by buyers of good A rises by more than, less than, or the same amount as the price paid by buyers of good B.

**Answer: A**
**Topic: Taxes, Government Revenue**

124) The above figure shows the market for neckties. Based on the graph, how much tax per necktie has been imposed by the government?

- A) $1.25 per tie.
- B) $1.00 per tie.
- C) $0.75 per tie.
- D) More information is needed to determine the tax that the government has imposed.

**Answer:** B

**Topic: Taxes, Deadweight Loss**

126) The above figure shows the market for neckties after the government has imposed an excise tax. How much deadweight loss results from this excise tax?

- A) $250.00
- B) $200.00
- C) $150.00
- D) $50.00

**Answer:** D

**Topic: Who Pays the Sales Tax?**

127) The above figure depicts the market for video games. If the government imposed a $3 per game tax on sellers, what would be the new equilibrium price paid by consumers after the tax?

- A) Less than $27 per game.
- B) $27 per game.
- C) More than $27 per game.
- D) More information is needed to determine if the price is more than, less than, or equal to $27 per game.

**Answer:** C
**Topic: Taxes, Government Revenue**
**Skill: Analytical**
128) The above figure depicts the market for video games. If the government imposed a $3 per game tax on sellers, what would be tax revenue?

A) Less than $18.
B) $18.
C) More than $18.
D) More information is needed to determine if the tax revenue is more than, less than, or equal to $18.

**Answer: A**

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**Topic: Who Pays the Sales Tax?**
**Skill: Analytical**
129) Of the $3 per pizza tax illustrated in the above figure,

A) the consumers pay $2 of the $3 per pizza tax.
B) the sellers pay $1 of the $3 per pizza tax.
C) the government collects $120 thousand in revenue from the pizza tax.
D) All of the above answers are correct.

**Answer: D**

---

**Topic: Taxes, Deadweight Loss**
**Skill: Analytical**
130) Which of the following is NOT true about the $3 per pizza tax illustrated in the above figure?

A) It decreases consumer surplus by $90 thousand.
B) It decreases producer surplus by $45 thousand.
C) It creates a deadweight loss of $135 thousand.
D) None of the above because they are all true.

**Answer: C**

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**Topic: Taxes**
**Skill: Recognition**
131) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. Referring to the above figure, how much tax per unit has the government imposed?

A) \( cb \)
B) \( db \)
C) \( ab \)
D) \( ca \)

**Answer: D**

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**Topic: Who Pays the Sales Tax?**
**Skill: Recognition**
132) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. The sport equipment producers’ share of this excise tax would be greater than shown in the above figure if

A) the demand was more elastic.
B) the demand was more inelastic.
C) the supply was more elastic.
D) Both answers A and C are correct.

**Answer: A**
133) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. The sports equipment consumers’ share of this excise tax would be greater than that shown in the above figure.

- A) only if the demand was more elastic.
- B) only if the demand was more inelastic.
- C) only if the supply was more elastic.
- D) if either the demand was more inelastic or the supply more elastic.

**Answer: D**

134) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. Using the above figure, how much producer surplus is lost from this excise tax on sports equipment?

- A) \( abd \)
- B) \( acd \)
- C) \( P_1P_3 ba \)
- D) \( P_0P_1 da \)

**Answer: D**

135) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. Using the above figure, how much consumer surplus is lost from this excise tax on sports equipment?

- A) \( bcd \)
- B) \( P_1P_3 cd \)
- C) \( P_2P_3 ec \)
- D) \( ced \)

**Answer: B**

136) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. Using the above figure, how much deadweight loss results from this excise tax on sports equipment?

- A) \( cbd \)
- B) \( ced \)
- C) \( abd \)
- D) \( acd \)

**Answer: D**

137) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. The deadweight loss created by this excise tax would be greater than shown in the figure above if

- A) the demand were more elastic.
- B) the supply were more elastic.
- C) Neither of the above.
- D) Both of the above.

**Answer: D**

138) To help pay for the cost of sport related injuries, the government imposes an excise tax on sellers of all sports equipment. Referring to the above figure, how much tax revenue does the government raise from this excise tax on sports equipment?

- A) \( P_1P_3 ed \)
- B) \( ecd \)
- C) \( P_0P_3 ea \)
- D) \( P_1P_2 cb \)

**Answer: C**

139) The federal government is likely to impose taxes on goods that have

- A) high elasticity of demand.
- B) low elasticity of demand.
- C) close substitutes.
- D) negatively sloped supply curves.

**Answer: B**
Topic: The Sales Tax in Practice  
Skill: Analytical  
140) After a $3 per-unit tax on seeing movies in theaters is imposed, attendance falls from 4,000 a week to 3,000 a week. The revenue from the tax is  
A) less than $9,000 a week.  
B) $9,000 a week.  
C) between $9,000 a week and $12,000 a week.  
D) some amount that cannot be calculated without more information.  
Answer: B

Topic: The Sales Tax in Practice  
Skill: Analytical  
141) A $10 per-unit tax on CD players raises the equilibrium price paid by consumers by $5. Before the tax, 5,000 CD players were sold per year. The revenue from the tax is  
A) zero.  
B) positive but less than $50,000 per year.  
C) $50,000 per year.  
D) more than $50,000 per year.  
Answer: B

Subsidies and Quotas

Topic: An Agricultural Market  
Skill: Conceptual  
142) Once farmers have harvested their crop, they have  
A) almost no control over the quantity supplied. Their momentary supply is elastic.  
B) almost no control over the quantity supplied. Their momentary supply is inelastic.  
C) strong control over the quantity supplied. Their momentary supply is elastic.  
D) strong control over the quantity supplied. Their momentary supply is inelastic.  
Answer: B

Topic: An Agricultural Market  
Skill: Conceptual  
143) Generally the demand for farm products is  
A) inelastic but not perfectly inelastic.  
B) elastic but not perfectly elastic.  
C) perfectly inelastic.  
D) perfectly elastic.  
Answer: A

Topic: An Agricultural Market  
Skill: Conceptual  
144) Most farm products have  
A) unstable demands.  
B) demand curves with positive slopes.  
C) inelastic demands.  
D) elastic demands.  
Answer: C

Topic: An Agricultural Market  
Skill: Conceptual  
145) If demand is inelastic, a leftward shift of the supply curve will  
A) decrease total revenue.  
B) increase total revenue.  
C) have no effect on total revenue.  
D) shift the demand curve leftward.  
Answer: B

Topic: An Agricultural Market  
Skill: Conceptual  
146) If demand is elastic, a leftward shift of the supply curve will  
A) decrease total revenue.  
B) increase total revenue.  
C) have no effect on total revenue.  
D) decrease the demand for the good.  
Answer: A

Topic: An Agricultural Market  
Skill: Conceptual  
147) If the demand for corn is inelastic, the revenue from corn farming will  
A) remain constant with either a good or a bad harvest.  
B) vary by the same percentage as the price of corn.  
C) increase with a good harvest and decrease with a poor one.  
D) decrease with a good harvest and increase with a poor one.  
Answer: D
CHAPTER 6

Topic: An Agricultural Market
Skill: Analytical
148) In the figure above, wheat farmers’ revenue is
A) highest when there is a bumper crop.
B) highest when there is a normal crop.
C) highest when there is a poor crop.
D) the same regardless of the size of the crop.
Answer: C

Topic: Farm Price Stabilization Policy
Skill: Analytical
149) In the above figure, if the government sets a pro-
duction quota of 16 billion bushels then
A) farmers benefit and consumers lose.
B) farmers benefit and consumers benefit.
C) farmers lose and consumers lose.
D) farmers lose and consumers benefit.
Answer: A

Markets for Illegal Goods

Topic: Markets For Illegal Goods, Penalties on Sellers
Skill: Analytical

150) Outlawing the sale of a good shifts the supply curve
A) leftward and lowers the price.
B) leftward and raises the price.
C) rightward and lowers the price.
D) rightward and raises the price.
Answer: B

151) If enforcement is aimed at sellers of an illegal
good, its equilibrium price will ____ and its equi-
librium quantity will ____.
A) rise; increase
B) rise; decrease
C) fall; increase
D) fall; decrease
Answer: B

Topic: Markets For Illegal Goods, Penalties on Both Buyers and Sellers
Skill: Analytical

152) Making the buying and selling of a good illegal
shifts the demand curve ____ and shifts the sup-
ply curve ____.
A) rightward; rightward
B) rightward; leftward
C) leftward; rightward
D) leftward; leftward
Answer: D
153) In the above figure, \( CBL \) is the cost of breaking the law. If it is illegal to buy, but not illegal to sell, then the price will be

A) $500.
B) $400.
C) $300.
D) $200.

Answer: D

154) In the above figure, \( CBL \) is the cost of breaking the law. If it is illegal to sell, but not illegal to buy, then the price per unit will be

A) $500.
B) $400.
C) $300.
D) $200.

Answer: A

155) In the above figure, \( CBL \) is the cost of breaking the law. If the good in the figure is made illegal and penalties are imposed on both buyers and sellers, then its price

A) will be higher than if it was not illegal.
B) will be lower than if it was not illegal.
C) will be the same as when it was not illegal.
D) cannot be compared with its price when it was legal.

Answer: B

156) In the above figure, \( CBL \) is the cost of breaking the law. If it is illegal to buy and sell, then the price will be

A) $500.
B) $400.
C) $300.
D) $200.

Answer: C

157) In the above figure, \( CBL \) is the cost of breaking the law. If it is illegal to buy and sell, then the quantity of the good bought and sold will be

A) 100.
B) 200.
C) 300.
D) 400.

Answer: A

## Study Guide Questions

### Topic: Study Guide Question, A Regulated Housing Market

158) Which of the following is a likely outcome of rent ceilings?

A) A surplus of rent-controlled housing.
B) Waiting lists of potential renters of rent-controlled housing.
C) Construction of more rental housing.
D) Black market rents below the ceiling rent.

Answer: B
159) In the above figure, if the minimum wage is set at $8 per hour, the level of unemployment in millions of hours per week is

A) 40.
B) 30.
C) 20.
D) 0.

Answer: C

160) In the above figure, if the minimum wage is set at $6 per hour, the level of unemployment in millions of hours per week is

A) 40.
B) 30.
C) 20.
D) 0.

Answer: D

161) Suppose the government wants to discourage the use of cigarettes. If it imposes a tax on cigarettes, the equilibrium quantity falls the most when the elasticity of demand equals

A) 2.00.
B) 1.00.
C) 0.50.
D) 0.

Answer: A

162) Suppose the government imposes a $1 tax on frisbees, and the price of a frisbee rises by $1.

A) The price rise is consistent with a perfectly elastic supply for frisbees.
B) The price rise is consistent with a perfectly elastic demand for frisbees.
C) The price rise is consistent with a downward-sloping supply curve for frisbees.
D) The price could never rise this much, so this situation cannot happen.

Answer: A

163) The less elastic the supply, the

A) less likely the government is to tax the product.
B) less likely the government is to impose a price ceiling.
C) larger the fraction of any tax imposed on the product that is paid by the suppliers.
D) less elastic the demand.

Answer: C

164) If sanctions are imposed on buyers but NOT on sellers of an illegal good, then the equilibrium price ____ and the equilibrium quantity ____.

A) rises; increases
B) rises; decreases
C) falls; increases
D) falls; decreases

Answer: D

165) Among the factors that create a deadweight loss and inefficiency are

A) minimum wages, but not taxes.
B) rent ceilings, but not taxes.
C) taxes, but not minimum wages or rent ceilings.
D) minimum wages, rent ceilings, and taxes.

Answer: D
166) In the market for books, initially there are no taxes on books. Books are normal goods. The government introduces a tax of $4 a book. At the same time, average income falls by $4,000 a year to $20,000 a year. Following these two changes, the equilibrium quantity of books
A) decreases.
B) increases.
C) remains unchanged.
D) either increases or decreases. We cannot say which.
Answer: A

167) In the above figure, the equilibrium price of a paperback book is $6 per book and the equilibrium quantity is 3 million books. The National Literature Board convinces the government to impose a price ceiling of $3 per book. At this price, the quantity of books supplied to the market will be
A) 3 million a month and will equal the quantity demanded.
B) less than 3 million a month and will exceed the quantity demanded.
C) less than 3 million a month and will be less than the quantity demanded.
D) more than 3 million a month and will exceed the quantity demanded.
Answer: C
In the above figure, the equilibrium price of a paperback book is $6 per book and the equilibrium quantity is 3 million books. The National Literature Board convinces the government to impose a price ceiling of $6 per book. At this price, the quantity of books supplied to the market will be

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B) less than 3 million a month and will exceed the quantity demanded.
C) less than 3 million a month and will be less than the quantity demanded.
D) more than 3 million a month and will exceed the quantity demanded.

Answer: A

The figure above illustrates a rental housing market in which there is a rent ceiling of $400 a month. The rent ceiling is strictly enforced. The number of apartments rented is

A) less than 2 thousand.
B) 2 thousand.
C) 3 thousand.
D) 4 thousand.

Answer: B

A rent ceiling that is effective results in

A) a surplus of housing
B) helping the poor
C) a shortage of housing
D) no change in the quantity of housing supplied but a decrease in the quantity of housing demanded

Answer: C

Search activity

A) occurs there is a surplus of the good
B) is unnecessary when a black market exists
C) increases when an effective price ceiling is set on a good
D) decreases when an effective price ceiling is set on a good

Answer: C
Topic: Price Floor
Level 1: Definitions and Concepts
174) The government sets a price floor for corn which is effective. As a result, ____.
   A) the corn market will be efficient.
   B) a deadweight loss will be created.
   C) a shortage of corn will be produced.
   D) None of the above answers is correct.
Answer: B

Topic: The Minimum Wage
Level 1: Definitions and Concepts
175) When a minimum wage is set above the equilibrium wage rate, ____.
   A) the supply of low-skilled workers decreases and the supply curve shifts rightward
   B) unemployment increases
   C) search activity decreases
   D) the supply of low-skilled workers increases and the supply curve shifts leftward
Answer: B

Topic: The Minimum Wage
Level 1: Definitions and Concepts
176) A minimum wage set above the equilibrium wage rate for low-skilled workers ____.
   A) creates more employment opportunities for low-skilled workers
   B) creates more prosperity among younger people
   C) creates unemployment among low-skilled workers
   D) increases the number of good paying jobs available to young people
Answer: C

Topic: Who Pays the Sales Tax?
Level 1: Definitions and Concepts
177) Buyers respond only to the price that ____ the tax, and sellers respond to the price that ____ the tax.
   A) excludes; includes
   B) includes; excludes
   C) excludes; excludes
   D) includes; includes
Answer: B

Topic: An Agriculture Market
Level 1: Definitions and Concepts
178) If the demand for an agricultural good is inelastic, then a crop failure results in a higher price and farm revenue will ____.
   A) decrease
   B) increase
   C) either remain constant or increase
   D) remain constant
Answer: B

Topic: Price Ceiling
Level 2: Using Definitions and Concepts
179) An effective price ceiling on a good or service can ____.
   A) occur only in the market for rental housing
   B) create a surplus of the good or service
   C) increase the price of the good or service
   D) benefit those who are able to buy the good or service at the lower price
Answer: D

Topic: Rent Ceiling
Level 2: Using Definitions and Concepts
180) Sherry wants to rent an apartment. Although rents are below what she is willing to pay, she cannot find an apartment. Then after a month of searching, she finds an apartment but she has to pay an additional $1,000 to have the locks changed. Sherry has just experienced the effects of ____.
   A) a rent floor with a black market
   B) inelastic demand
   C) a market working efficiently
   D) a rent ceiling
Answer: D

Topic: Price Ceiling
Level 2: Using Definitions and Concepts
181) Suppose the government imposes a price ceiling on gasoline that is less than the equilibrium price. As a result,
   A) the price of gasoline rises to the equilibrium price.
   B) there is incentive for buyers to undertake search activity.
   C) the supply of gasoline will increase and the supply curve will shift rightward.
   D) the demand for gasoline will decrease and the demand curve will shift leftward.
Answer: B
Topic: Black Markets  
Level 2: Using Definitions and Concepts  
182) If the government imposes a rent ceiling but does not enforce it, then the actual quantity of housing rented will be close to the unregulated equilibrium quantity because ____.
A) the supply of rental housing is perfectly elastic  
B) a black market will exist  
C) the supply of housing will increase and the supply curve will shift rightward  
D) people will undertake search activity  
Answer: B

Topic: The Minimum Wage  
Level 2: Using Definitions and Concepts  
183) A minimum wage ____.
A) is a price ceiling in the labor market  
B) changes the demand for labor.  
C) is an effective way of increasing employment  
D) is a price floor in the labor market  
Answer: D

Topic: Tax Incidence and the Elasticity of Demand  
Level 2: Using Definitions and Concepts  
184) If salt has a _____, then ____ pay most of any tax levied on salt.
A) high elasticity of supply; sellers  
B) low elasticity of demand; buyers  
C) high elasticity of demand; buyers  
D) low elasticity of supply; buyers  
Answer: B

Topic: Taxes, Deadweight Loss  
Level 2: Using Definitions and Concepts  
185) Which of the following outcomes is NOT a result of a tax imposed on sellers of gasoline?
A) Supply decreases, a deadweight loss is created, and the price rises.  
B) The market becomes less efficient and the government collects the tax revenue.  
C) Demand does not change, the price rises, and consumer surplus decreases.  
D) Demand decreases, the market becomes more efficient, and the price rises.  
Answer: D

Topic: Tax Incidence and the Elasticity of Demand  
Level 2: Using Definitions and Concepts  
186) The more elastic is the demand for a good, the _____ likely will the government tax that good. But if the good is taxed, the _____ is the amount of the tax paid by the buyer of the good.
A) less; larger  
B) less; smaller  
C) more; larger  
D) more; smaller  
Answer: A

Topic: The Market Response to a Decrease in Supply  
Level 3: Calculations and Predictions  
187) A forest fire destroys a large housing area. If the housing market is unregulated, then immediately after the fire, the price of housing _____. But after some time, the ____ housing starts to increase and the price starts to _____.
A) decreases; supply of; rise further  
B) decreases; demand for; rise  
C) increases; demand for; rise further  
D) increases; supply of; fall  
Answer: D
**Topic: A Regulated Housing Market**  
**Level 3: Calculations and Predictions**  
188) The figure shows the market for rental units in Gladstone. The market is in equilibrium. The government now introduces a rent ceiling of $500 a month. The price of a rental unit ____ and the number of units rented ____.
A) increases by $500 per month; decreases    
B) increases by $100 per month; increases    
C) decreases by $100 per month; decreases    
D) remains the same; remains the same 
**Answer: C**

**Topic: Minimum Wage and Unemployment**  
**Level 3: Calculations and Predictions**  
189) When an effective minimum wage is introduced, the number of hours of labor employed is determined by the ____ and the ____.
A) supply of labor; minimum wage    
B) demand for labor; supply of labor    
C) supply of and demand for labor; the minimum wage    
D) demand for labor; minimum wage 
**Answer: D**

**Topic: Taxes, Government Revenue**  
**Level 3: Calculations and Predictions**  
190) The table gives the demand and supply schedules for cookies. The government now levies a $0.30 tax on cookies. As a result, the price of a packet of cookies increases by ____ and the tax revenue collected is ____ a week.
A) $0.20; $24    
B) $0.10; $9    
C) $0.20; $20    
D) $0.30; $30 
**Answer: A**

**Topic: Tax Incidence and the Elasticity of Demand**  
**Level 3: Calculations and Predictions**  
191) The more ____ the larger is the amount of the tax on the good that the ____ pays.
A) elastic the demand for a good; buyer    
B) inelastic the demand for a good; buyer    
C) inelastic the supply of a good; buyer    
D) elastic the supply of a good; seller 
**Answer: B**
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CHAPTER 6

Topic: Taxes, Government Revenue
Level 3: Calculations and Predictions
192) The figure illustrates the market for posters. The tax on a poster is ____ and the government’s tax revenue from the sale of posters is ____ a month.
A) $0.50; $150
B) $0.35; $105
C) $0.35; $200
D) $0.35; $140
Answer: A

Topic: Taxes, Deadweight Loss
Level 3: Calculations and Predictions
193) If the government decreases the tax on CD players, ____.
A) the deadweight loss increases
B) the consumer surplus does not change because sellers will not lower the price of a CD
C) the number of CDs purchased does not change
D) the market becomes less efficient because the government has less tax revenue
Answer: A

Topic: A Market for Illegal Goods, Penalties on Sellers
Level 3: Calculations and Predictions
194) If the penalty on sellers of an illegal good is less than the penalty on buyers of an illegal good, then supply of the good will ____ by ____ demand and the price of the good will ____.
A) increase; more than; increase
B) decrease; more than; decrease
C) decrease; less than; decrease
D) decrease; the same amount as; remain the same
Answer: C

Topic: An Agricultural Market
Level 3: Calculations and Predictions
195) Because most agricultural products have an ____ demand, a poor harvest in an unregulated market will ____ farm revenue.
A) inelastic; decrease
B) elastic; increase
C) elastic; decrease
D) inelastic; increase
Answer: D
196) The figure shows the market for books before and after a sales tax is introduced. The tax on books is $1.20 a book, buyers pay $0.80 of tax per book, and the government's tax revenue is $128 a week.
A) $1.20; $0.80; $128
B) $0.80; $1.20; $12
C) $0.40; $0.40; $4
D) $1.20; $0.80; $12
Answer: D

197) The figure shows the market for books before and after a sales tax is introduced. Each week, the tax creates a deadweight loss of $3, decreases consumer surplus by $10, and decreases producer surplus by $5.
A) $15; $10; $5
B) $12; $8; $4
C) $3; $10; $5
D) $3; $2; $1
Answer: C

198) On Green Island, the demand for pencils is perfectly elastic and the supply of pencils is perfectly inelastic. If a sales tax on pencils is introduced, the seller pays the entire tax.
A) the tax is split evenly between the buyer and seller
B) the buyer pays the entire tax
C) no one pays the tax
D) the seller pays the entire tax
Answer: D
CHAPTER 6

Topic: Taxes, Government Revenue
Level 4: Advanced Calculations and Predictions

199) The government wants to increase its total revenue and plans to implement an additional sales tax. The government will raise more total revenue if it taxes a good with an ____ rather than a good with an ____.
A) inelastic demand; elastic demand
B) elastic demand; inelastic demand
C) elastic supply; inelastic supply
D) None of the above answers is correct.

Answer: A

Topic: A Market for Illegal Goods, Penalties on Sellers
Level 4: Advanced Calculations and Predictions

200) If buyers of illegal goods are punished but sellers are not, then the price ____ and the equilibrium quantity ____.
A) rises; increases
B) rises; decreases
C) falls; increases
D) falls; decreases

Answer: D

<table>
<thead>
<tr>
<th>Price (dollars per firework)</th>
<th>Quantity demanded (fireworks per week)</th>
<th>Quantity supplied (fireworks per week)</th>
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</table>

Topic: A Market for Illegal Goods, Penalties on Buyers
Level 4: Advanced Calculations and Predictions

201) The table gives the demand and supply schedules for fireworks on the Island of Big Bang. In the past, because many deaths have resulted from accidents involving fireworks, the government has banned fireworks and is enforcing the ban. A $6 a firework penalty on sellers of fireworks and no penalty on buyers will reduce the number of fireworks bought to ____ a week and increase the price, including the penalty, to ____ a firework.
A) 40; $13
B) 140; $8
C) 80; $11
D) 0; an unknown amount

Answer: C
## Markets in Action

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### Topic: A Market for Illegal Goods, Penalties on Sellers

#### Level 4: Advanced Calculations and Predictions

202) The table gives the demand and supply schedules for fireworks on the Island of Big Bang. In the past, because many deaths have resulted from accidents involving fireworks, the government has banned fireworks and is enforcing the ban. A $6 a firework penalty on buyers of fireworks and no penalty on sellers will reduce the number of fireworks bought to ____ a week and decrease the price, excluding the penalty, to ____ a firework.

A) 80; $5  
B) 40; $8  
C) 0; an unknown amount  
D) 140; $3

**Answer: A**

### Topic: A Market for Illegal Goods, Penalties on Buyers and Sellers

#### Level 4: Advanced Calculations and Predictions

203) The table gives the demand and supply schedules for fireworks on the Island of Big Bang. In the past, because many deaths have resulted from accidents involving fireworks, the government has banned fireworks and is enforcing the ban. A $5 a firework penalty on buyers of fireworks and a $4 a firework penalty on sellers will reduce the number of fireworks bought to ____ a week and the price will be ____ a firework.

A) 80; $7  
B) 40; $13  
C) 0; an unknown amount  
D) 160; $11

**Answer: B**

### Topic: Tax Incidence and the Elasticity of Demand

#### Level 4: Advanced Calculations and Predictions

204) Suppose that a sales tax is imposed on a good, but the price does not change. Such a situation will occur if the ____ the good is ____.

A) demand for; perfectly elastic  
B) demand for; unit elastic  
C) supply of; perfectly elastic  
D) demand for; perfectly inelastic

**Answer: A**