

**Microeconomics**  
Quiz #2 Study Guide (Part 1)

*Note:* Below is a list of study questions for the upcoming Quiz #2 (Mon., April 19; the quiz covers Ch. 6, 7, the article “China’s Labor Crunch . . .,” the Labor Market Problem Set 1 and 2, and supplementary notes during class. Please answer the questions (all of them or as many as you can) as a way of preparing for your quiz. Most, if not all, of the study questions here will appear in the quiz. (Some of them could also appear in a slightly different format than shown here.) Since you don’t know which ones will be in the quiz, it would be a good idea to answer all of them. Please don’t ask me for the answers although you can ask me for clarification of the questions. Also, there could be some other questions on the quiz that are not found on this list. The best way to use this study guide is to try to answer all the questions as best as you can on your own and then compare your answers with those of your classmates’. Then *discuss* why your answers are different so that you learn the reason why. Form a study group if you can. –Rudy

*Instructions:* The first part (Part 1) of the quiz is closed notes (mostly multiple choice questions), meaning you are not allowed to use your notes. You may use calculator and a dictionary but *only* a dictionary and nothing else (no computer). *No* sharing of dictionary or calculator. Bring your own. On the multiple choice questions, circle the correct answer. There is only *one* correct answer in each multiple choice question. The second part (Part 2), after you have completed Part 1, is open notes and book---it is a problem similar to The Labor Market Problem Sets that we have studied. And there might be a short-answer essay question. So bring your notes and book for this part. A calculator would also be needed.

1. A price ceiling

- a. is a legal maximum on the price at which a good can be sold.
- b. is often imposed in markets in which “cutthroat competition” would prevail without a price ceiling.
- c. is often imposed when sellers of a good are successful in their attempts to convince the government that the market outcome is unfair without a price ceiling.
- d. All of the above are correct.

2. A price floor

- a. is a legal minimum on the price at which a good can be sold.
- b. can result when sellers of a good are successful in their attempts to convince the government that the market outcome without a price floor is unfair to them.
- c. can create inequities in a market.
- d. All of the above are correct.

3. To say that a price ceiling is binding is to say that the price ceiling

- a. results in a scarcity.
- b. is set above the equilibrium price.
- c. results in excess demand.
- d. All of the above are correct.

4. When a price floor is binding, the equilibrium price is

- a. lower than the price floor.
- b. higher than the price floor.
- c. equal to the price floor.
- d. It is impossible to compare the equilibrium price with the price floor.

5. Why is rationing when there is a price ceiling not a good thing?

6. A minimum wage that is set below a market's equilibrium wage will result in

- a. an excess demand for labor, that is, unemployment.
- b. an excess demand for labor, that is, a shortage of workers.
- c. an excess supply of labor, that is, unemployment.
- d. None of the above is correct.

7. There are several criticisms of the minimum wage. Which of the following is *not* one of those criticisms?

- a. The minimum wage often hurts those people who it is intended to help.
- b. The minimum wage results in an excess supply of low-skilled labor.
- c. The minimum wage prevents some younger workers from getting needed on-the-job training.
- d. The minimum wage fails to raise the wage of any employed person.

8. Consumer surplus

- a. is the amount of a good that a consumer can buy at a price below equilibrium price.

- b. is the difference between the amount that a consumer actually pays for a good and the amount that the consumer is willing to pay for the good.
  - c. is the number of consumers who are excluded from a market because of scarcity.
  - d. measures how much a buyer values a good.
9. If a consumer is willing and able to pay \$20 for a particular good and if he pays \$16 for the good, then for that consumer, consumer surplus amounts to
- a. \$4.
  - b. \$16.
  - c. \$20.
  - d. \$36.
10. Suppose Lauren, Leslie and Lydia all purchase bulletin boards for their rooms for \$15 each. Lauren's willingness to pay was \$35, Leslie's willingness to pay was \$25, and Lydia's willingness to pay was \$30. Total consumer surplus for these three would be
- a. \$15.
  - b. \$30.
  - c. \$45.
  - d. \$90.
11. Shannon buys a new CD player for her car for \$135. She receives consumer surplus of \$25 on her purchase if her willingness to pay is
- a. \$25.
  - b. \$110.
  - c. \$135.
  - d. \$160.

**Table 7-1**

BUYER	WILLINGNESS TO PAY
MIKE	\$50.00
SANDY	\$30.00
JONATHAN	\$20.00
HALEY	\$10.00

12. **Refer to Table 7-1.** If the table represents the willingness to pay of four buyers and the price of the product is \$15, then who would be willing to purchase the product?
- a. Mike
  - b. Mike and Sandy
  - c. Mike, Sandy, and Jonathan
  - d. Mike, Sandy, Jonathan, and Haley
13. **Refer to Table 7-1.** If the table represents the willingness to pay of four buyers and the price of the product is \$18, then their total consumer surplus is
- a. \$38.
  - b. \$42.
  - c. \$46.
  - d. \$72.
14. The area below a demand curve and above the price measures
- a. producer surplus.
  - b. consumer surplus.
  - c. excess supply.
  - d. willingness to pay.
15. When a tax is imposed on the buyers of a good, the demand curve shifts
- a. downward by the amount of the tax.
  - b. upward by the amount of the tax.
  - c. downward by less than the amount of the tax.
  - d. upward by more than the amount of the tax.

The following table represents the costs of five possible sellers.

**Table 7-4**

SELLER	COST
DALE	\$1,500
JILL	\$1,200
DENISE	\$1,000
CATHERINE	\$750
JACKSON	\$500

16. Refer to Table 7-4. If the market price is \$1,000, the producer surplus in the market is

- a. \$700.
- b. \$750.
- c. \$2,250.
- d. \$3,700.

17. In a market, total surplus is

- a. equal to producer surplus plus consumer surplus.
- b. equal to the total cost to sellers minus the total value to buyers.
- c. equal to consumers' willingness to pay plus producers' cost.
- d. greater than the sum of consumer surplus plus producer surplus.

18. When is efficiency (of resource allocation) attained?

19. What is the effect of moving production from a high-cost producer to a low-cost producer?

20. If a tax is imposed on a market with inelastic demand and elastic supply,

- a. buyers will bear most of the burden of the tax.
- b. sellers will bear most of the burden of the tax.
- c. the burden of the tax will be shared equally between buyers and sellers.
- d. it is impossible to determine how the burden of the tax will be shared.

21. If a tax is imposed on a market with elastic demand and inelastic supply,

- a. buyers will bear most of the burden of the tax.
- b. sellers will bear most of the burden of the tax.
- c. the burden of the tax will be shared equally between buyers and sellers.
- d. it is impossible to determine how the burden of the tax will be shared.

**Table 7-3**

For each of three potential buyers of oranges, the table displays the willingness to pay for the first three oranges of the day. Assume Alex, Barb, and Carlos are the only three buyers of oranges.

	First Orange	Second Orange	Third Orange
Alex	\$2.00	\$1.50	\$0.75
Barb	\$1.50	\$1.00	\$0.80
Carlos	\$0.75	\$0.25	\$0

22. Refer to Table 7-3. If the market price of an orange is \$0.40,

- a. 6 oranges are demanded per day and total consumer surplus is \$4.45.
- b. 6 oranges are demanded per day and total consumer surplus is \$5.10.
- c. 7 oranges are demanded per day and total consumer surplus is \$5.35.
- d. 7 oranges are demanded per day and total consumer surplus is \$5.50.

23. In the article "China's Labor Crunch, . . ." what was the reason for raising the minimum wage, say, in Guangzhou?

24. What are the concerns by the scholars that are driving the idea or proposal of a two-child policy in China?