

PROBLEM SET # 3
(CHP 4, Case, Fair and Oster)

1. Which of the following is not a non – price rationing device?

- a) favored customers
- b) queuing
- c) price floor
- d) ration coupons

2. Rent ceilings imposed by governments

- a) keep rental prices below the unregulated market price.
- b) keep rental prices above the unregulated market price.
- c) keep rental prices equal to the unregulated market price.
- d) increase the stock of rental housing.

3. Which of the following is not a likely outcome of rent ceilings?

- a) a black market for rent-controlled housing.
- b) long waiting lists of potential renters of rent-controlled housing.
- c) a short-run shortage of housing.
- d) black market prices below the rent ceiling prices.

4. For a price floor to be effective, it has to be set;

- a) at equilibrium price
- b) above the equilibrium price
- c) below the equilibrium price
- d) none of the above

5. Suppose the demand for apartments in YüzüncüYıl is $Q_D = 1,000 - P$ and the supply of apartments is $Q_S = P$. Since the municipality of Ankara is worried about rents being excessive, it passes a law that rents cannot exceed \$600.

- a) The effects of this price ceiling will be to create apartment shortages.
- b) The price floor will create excess supply of apartments and high vacancy rates.
- c) The policy will have no effect.
- d) The price floor will result in excess demand for apartments.

6. Black markets are associated with:

- a) Price floors and the resulting product surpluses
- b) Price floors and the resulting product shortages
- c) Ceiling prices and the resulting product shortages
- d) Ceiling prices and the resulting product surpluses

7. A price ceiling imposed on the Oil market that is set below the natural market equilibrium price of Oil will

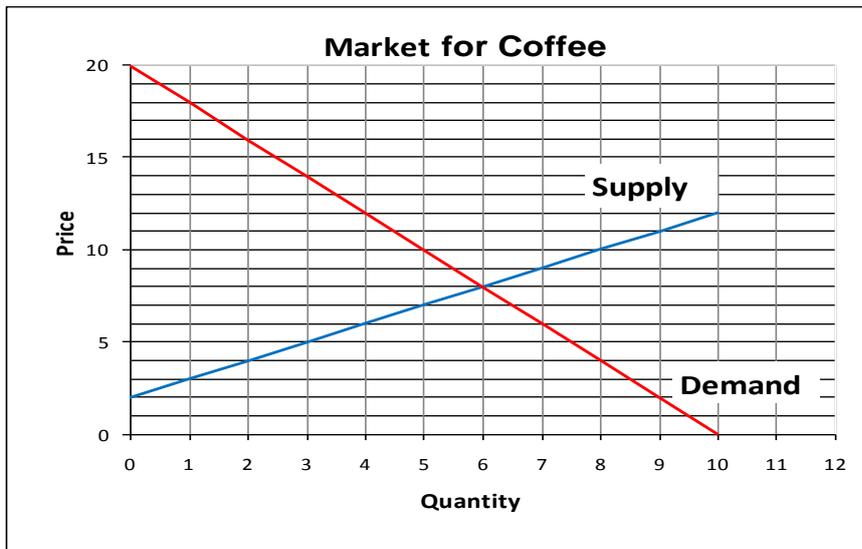
- a. increase the demand for Oil
- b. increase the supply of Oil
- c. create a shortage of Oil
- d. have no economic impact at all

8. Suppose market demand is given by the equation: $Q_D=100-2P$ and market supply is given by $Q_S=3P$. Suppose the government places a price floor on this market equal to $P_{\text{floor}}=\$30$. From the basic model of demand and supply we predict

- a. nothing will happen since the price floor is not binding.
- b. that there will be a shortage generated of 50 units.
- c. that there will be excess demand driving the price higher still.
- d. that there will be an excess supply of 50 units.

9. Four buyers are in the market for new cars. Suppose Abe is willing to pay \$20,000, Betty is willing to pay \$56,000, Charlie is willing to pay \$34,000, and Daniel is willing to pay \$18,000. If the current market price for new cars is \$25,000, what is the total consumers' surplus in this situation?

- a. \$12,000
- b. \$28,000
- c. \$40,000
- d. \$90,000



10. Using the graph for the Coffee Market above, at the market equilibrium, the consumers' surplus plus the producers' surplus in the coffee market is

- a. \$8
- b. \$18
- c. \$36
- d. \$54

Answer the questions **11 & 12** according to the demand and supply functions for Good A:

$$Q_D = 24 - P \quad Q_S = 2P$$

11. At the market equilibrium, consumer surplus in this market is

- a) 64
- b) 128
- c) 512
- d) 96

12. At the market equilibrium, producer surplus in this market is

- a) 16
- b) 24
- c) 32
- d) 64

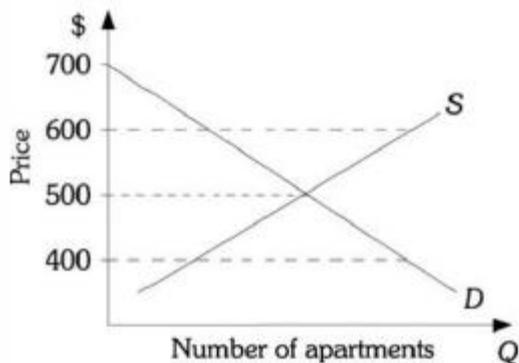
13. The price of a good will tend to fall if

- a) there is surplus at the current price.
- b) the current price is above equilibrium.
- c) the quantity supplied exceeds the quantity demanded at the current price.
- d) all of the above are true.

14. The difference between the minimum amount a firm is willing to accept for a good and its current market price is known as:

- A) profits
- B) the paradox of value
- C) consumer surplus
- D) producer surplus

15. Refer to the Figure below. An example of an effective price floor would be the government setting rental rates for apartments at



- A) below \$400
- B) \$400
- C) \$500
- D) \$600

16. If a market has a shortage that persists, economists will look for price:

- a) ceilings above equilibrium price.
- b) ceilings below equilibrium price.
- c) floors above equilibrium price.
- d) floors below equilibrium price

17. There will be a deadweight loss in a market if

- A) producer surplus exceeds consumer surplus.
- B) the actual quantity traded is other than the market equilibrium quantity.
- C) consumer surplus exceeds producer surplus.
- D) the actual quantity traded equals the market equilibrium quantity

18. If the government imposes a binding price ceiling on a good, then which of the following will not occur:

- a) producer surplus will decrease.
- b) consumer surplus may increase or decrease.
- c) total surplus will remain constant.
- d) the quantity of the good transacted will decrease.

19. A minimum wage law creates

- a) gainers
- b) losers
- c) gainers and losers
- d) a decrease in supply
- e) an increase in hours worked

20. A price floor set below the equilibrium price results in

- a) excess supply
- b) excess demand
- c) the equilibrium price
- d) an increase in supply
- e) a decrease in demand