METU **Spring 2014-2015**
Econ 210: Principles of Economics
(Section 1)
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PROBLEM SET # 3 Answers

(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 Bosna Hersek is Q_D = 1,000 – P and the supply of apartments is Q_S = P. Since the municipality of Konya 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

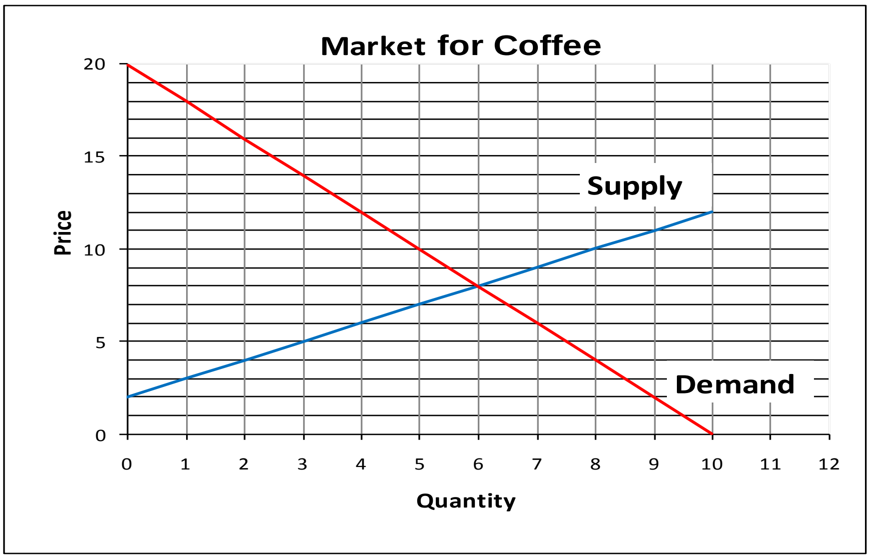
a. increase the demand for Oil
b. increase the supply of Oil
c. **create a shortage of Oil**
d. have no economic impact at all

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_{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

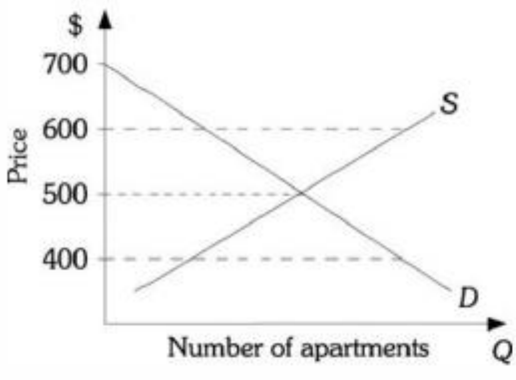
13. The price of a good will tend to fall if

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 minumum 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