

## CM12-14 QUESTIONS 5-6-21

### CM12 QUESTIONS

1. In voluntary, well informed, exchanges if one individual gains:
  - a. All others lose.
  - b. At least one other must lose.
  - c. Someone loses an amount equal to the other's gains.
  - d. The other parties to the exchange must also gain.
  - e. All parties to the exchange must gain equally or they will not voluntarily enter into the exchange.
2. Child labor is predominantly:
  - a. Work in sweat shops.
  - b. Work in brick fields.
  - c. Garbage scavenging.
  - d. Agricultural labor on parents' farms.
  - e. Child prostitution.

*Use the following information to answer the next four questions.*

Hawkeye Pearce earns \$900k per year after tax and including benefits. He would never volunteer for military service. His military pay and benefits after tax are \$100k per year. Frank Burns earns \$400k per year, after tax. The army regards Frank Burns as an acceptable surgeon. He would be willing to volunteer for the military if his after tax pay and benefits were at least \$600k per year. His military pay and benefits are \$150k per year. An average civilian thoracic surgeon makes \$500k per year.

3. The opportunity cost to the US of drafting Hawkeye Pearce would be?
  - a. \$100k per year.
  - b. \$500k per year.
  - c. \$600k per year.
  - d. \$900kper year.

e. \$1m per year

4. The opportunity cost to the US of drafting Frank Burns would be?

a. \$100k per year.

b. \$400k per year.

c. \$500k per year

d. \$550k per year.

e. \$600k per year.

5. If Frank Burns is drafted, the draft would impose an implicit tax on Frank Burns of?

a. \$150k per year.

b. \$250k per year.

c. \$400k per year.

d. \$500k per year

e. \$800k per year.

6. If Frank Burns is drafted then US GDP will fall by?

a. \$400k per year.

b. \$500k per year.

c. \$550k per year.

d. \$600k per year.

e. None of the above.

7. An optimal/economically efficient draft would:

a. draft the "best and brightest" to serve in the military.

b. draft the unemployed who are not contributing to GDP.

c. draft everyone of military age in order to make certain that all classes share the burden of the draft equally.

d. use a pure lottery with minimal exemptions but to allow draftees to provide an acceptable replacement.

e. draft the people who started the war in the first place.

## PRACTICE QUESTIONS FOR CM13

1. The term "market" refers to:
  - a. The New York Stock Exchange.
  - b. Financial institutions that trade foreign exchange.
  - c. Places where buyers and sellers can meet to buy and sell.
  - d. Any arrangement that allows buyers and sellers to trade with one another.
  - e. Trading arrangements that have been approved and regulated by governments.
  
2. Which country is the best example of a command economy?
  - a. Cuba.
  - b. Ireland.
  - c. India.
  - d. Mexico.
  - e. Greece.
  
3. Which of these statements involves a value judgment?
  - a. Households buy less butter when the price of butter increases.
  - b. The US economy is the largest economy in the world.
  - c. Economic literacy is essential for all citizens in a democracy.
  - d. Rent control reduces the quality of rental housing.
  - e. China is the world's largest producer of manufactured goods.
  
4. Market Fundamentalism is the view that:
  - a. Markets seldom generate socially optimal outcomes and therefore government intervention in markets is usually necessary.
  - b. Markets never generate socially optimal outcomes and therefore government intervention in markets is always necessary.
  - c. Markets always generate socially optimal outcomes and therefore government intervention in markets is always unnecessary and

harmful.

d. Markets on average generate socially optimal outcomes but, on average, government intervention in markets is necessary and beneficial.

e. Markets mostly generate socially optimal outcomes but government intervention in markets is sometimes necessary and beneficial.

## CM14 QUESTIONS

1. An externality is:

a. The benefit that is received by the buyer of a good or service.

b. The cost that is borne by the seller of a good or service.

c. The impact of economic activity that is borne by persons not directly part of the economic activity.

d. The difference between the marginal social benefit of an economic activity and the marginal social cost of an economic activity.

e. The costs and benefits associate with using external consultants.

2. An externality can be a:

a. Cost or a benefit.

b. Benefit but not a cost.

c. Cost but not a benefit.

d. Marginal cost but not a total cost.

e. Marginal benefit but not a total benefit.

3. Which of the following does NOT involve an externality?

a. I sell you an ice cream and you drip it all over the person sitting next to you.

b. I sell you an ice cream and it gives you a headache.

c. I sell you an ice cream and you share it with your friend.

d. I *give* you an ice cream and you share it with a friend.

4. An example of an activity that generates an external cost is:

a. Dumping soapsuds into a trout stream.

- b. National defense services.
  - c. Planting flowers along an interstate highway.
  - d. Eating an apple.
5. Which of the following is an example of a positive production externality?
- a. Carbon emission
  - b. Smoking tobacco in public places
  - c. A honey farmer places beehives beside an orchard owned by another farmer.
  - d. You get a flu vaccination.
6. The cost of producing one more unit of a good or service that is paid by the producer:
- a. Has to be equal to the benefit that the consumer derives from that good.
  - b. Is equal to the cost borne by people other than the producer.
  - c. Is the marginal private cost.
  - d. Is the external cost.
7. The existence of negative externalities causes the market output:
- a. To be larger than the socially optimal output.
  - b. To be smaller than the socially optimal output.
  - c. To be equal to the socially optimal output
  - d. Is the same as the market output.
8. The Coase Theorem is the proposition that if property rights exist, the number of parties is small, and transactions costs are low:
- a. External costs result in deadweight losses.
  - b. External benefits result in deadweight losses.
  - c. Private transactions are efficient.
  - d. Public transactions are efficient.
9. Problems such as over grazing – commonly referred to as “The Problem of the Commons” – occur when:

- a. Property is held by private owners who pursue private gain by exploiting the resource.
- b. Property is held by government agencies in order to maximize the "common good".
- c. There is open access to the resource so anyone and everyone can use the resource.
- d. Property is owned communally – in "common" – and hence no individual has any incentive to preserve the resource.
- e. The property is held by a "Commune" as in Switzerland.