

EXAMPLE QUESTIONS FOR CM8-CM10 4-25-21

READ THIS BEFORE TACKLING THE MULTIPLE-CHOICE QUESTIONS

Read the section at the end of the Syllabus on how to do multiple choice questions.

Do the questions under exam conditions.

Sit somewhere quiet – no music.

No notes or Commentaries.

Leave at least an hour between studying the supply and demand and doing the questions.

Spend no more than one minute per question. The longer you puzzle over the questions the more likely that you will choose a wrong option! Your gut reaction is usually correct.

CM8 TAX QUESTIONS

1. Sales (also called indirect or expenditure) taxes, that is taxes imposed on the sellers of the goods we purchase:

- a. Shift the demand curve upwards.
- b. Shift the demand curve downwards.
- c. Shift the supply curve upwards.
- d. Shift the supply curve downwards.
- e. Shift the supply curve rightwards.

2. The “flatter” the demand curve, the _____ the burden of the tax borne by _____.

- a. Smaller / consumers.
- b. Larger / consumers.
- c. Smaller / producers.
- d. Larger / consumers and producers.

3. In general, how a sales tax is divided between buyers and sellers is determined by:
- The government's choice of whom to tax.
 - Whether markets are competitive or not.
 - The flatness or steepness of the supply and demand curves.
 - The revenue needs of government.
 - Whether the good is a normal good or an inferior good.

CM9 SUBSIDY QUESTIONS

1. The federal government pays airlines to service small cities in the United States through a subsidy program called Essential Air Service which was established in 1978 when the airline industry was deregulated. Most subsidies can't exceed \$200 per passenger. If this subsidy were removed then:

- There would be higher prices and fewer flights.
- There would be lower prices and fewer flights.
- There would be lower prices and more flights.
- There would be an increase in supply.
- There would be a decrease in demand.

2. Because of steeply rising metal prices, the current cost of manufacturing a penny, 1.26 cents, is above the coin's face value. There were almost 2.7 billion pennies produced by the U.S. Mint in 2014 with a combined \$27 million face value but actually costing over \$34 million to produce. Nickels currently cost 7.7 cents to produce. What is the maximum willingness to pay for a penny, for a nickel?

- 1 cent; 5 cents.
- 1 cent; 7.7 cents.
- 1.27 cents; 5 cents.
- 1.27 cents; 7.7 cents.

3. The Volumetric Ethanol Excise Tax Credit (VEETC) is a tax credit for registered ethanol-gasoline blenders. Qualified blenders receive \$0.51 for each gallon of pure ethanol they blend into gasoline. That translates to \$0.42 for each gallon of ethanol-gasoline. VEETC is an example of a _____.

- Subsidy.
- Price floor.
- Price ceiling.
- Quota.
- Sales tax.

CM10 DOL AND CA QUESTIONS

1. By specialization and trade, two individuals can:
 - a. Consume at a point beyond their individual production possibilities frontiers.
 - b. Increase their comparative advantage.
 - c. Increase their absolute advantage.
 - d. Shift their individual production possibilities frontiers outward.
2. In one day, Sue can change the oil on 20 cars or change the tires on 20 cars. In one day, Fred can change the oil on 20 cars or change the tires on 10 cars. Sue and Fred can gain from trade if Sue changes the _____ and Fred changes the _____.
 - a. Tires; oil
 - b. Oil; oil
 - c. Oil; tires
 - d. Tires; tires
3. Suppose that a typical German factory can produce 20 cameras or 1 computer in an hour, and that a typical American factory can produce 10 cameras or one computer in an hour. The opportunity cost of 20 cameras in terms of computers in the United States is:
 - a. 10 computers.
 - b. 2 computers.
 - c. 1 computer.
 - d. 1/20 of a computer.
4. In order to achieve the maximum gains from trade, people should specialize according to:
 - a. Property rights.
 - b. PPCs.
 - c. PPPs
 - d. Absolute advantage.
 - e. Comparative advantage.
4. According to the so-called Law of Comparative Advantage, individuals, regions, and nations should produce those goods for which they:
 - a. Have an absolute advantage.
 - b. Are most absolutely productive.
 - c. Are low opportunity cost producers.
 - d. Are high opportunity cost producers.

5. According to the so-called Law of Comparative Advantage, if a rich country, which has an Absolute Advantage in the production of all goods and services compared to a poor country, trades with a poor country, then:

- a. The rich country will benefit and the poor country will lose.
- b. The rich country will lose and the poor country will benefit.
- c. Both countries will benefit.
- d. Both countries will benefit equally.
- e. Neither of the countries will benefit.

CM11 PROTECTION QUESTIONS

1. Country A has a CA in X relative to the rest of the world if:

- a. A's price is lower than the world price.
- b. A's price is higher than the world price.
- c. A's price is equal to the world price.
- d. CA refers to the relative costs of producing X in two countries and therefore we cannot say if A has a CA in X.

2. A quota:

- a. Is a limit on the number of goods that a foreign country may sell to us.
- b. Is a limit on the number of goods that we may sell to a foreign country.
- c. Is a tax on exports.
- d. Is a tax on imports.
- e. Is a subsidy placed on our exports.

3. Protection of the US car industry:

- a. Saves jobs in the US car industry at the expense of foreign car workers.
- b. Saves jobs in the US car industry at the expense of US consumers.
- c. Saves jobs in the US car industry at the expense of US consumers and US workers.
- d. Protects US car workers from dumping by foreign manufacturers who, in order to increase their US market share, sell their cars in the US at prices below their marginal cost of production.

4. Putting a tariff on men's shirts is likely to:

- a. May increase employment in the US and make consumers better off.
- b. May decrease employment in the US and make consumers better off.
- c. May decrease employment in export industries and increase employment in import

competing industries in the short run while making consumers better off.

d. May increase employment in exporting industries and increase employment in import competing industries in the short run while making consumers better off.

e. May decrease employment in export industries and increase employment in import competing industries in the short run while making consumers worse off.

5. U.S. producer surplus _____ when the United States imports a good and U.S. producer surplus _____ when the United States exports a good.

a. increases; increases.

b. increases; decreases.

c. decreases; increases.

d. decreases; decreases.