ECON 180 - Regulation & Antitrust Policy
Drake University, Spring 2015
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Signature: ______________________________

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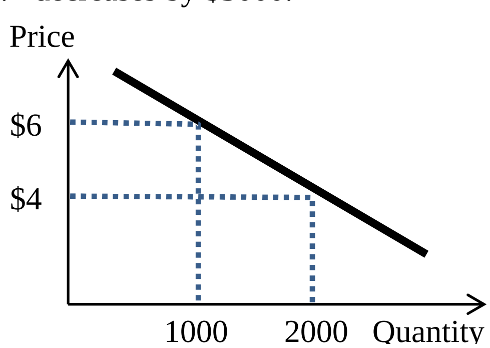
QUIZ 3 VERSION A
"Welfare Analysis"

INSTRUCTIONS: This exam is closed-book, closed-notes. Simple calculators are permitted, but graphing calculators or calculators with alphabetical keyboards are NOT permitted. Mobile phones or other wireless devices are NOT permitted. Points will be subtracted for illegible writing or incorrect rounding.

Multiple choice: Circle the one best answer to each question. [10 pts each]

(1) Alyson is willing to pay $500 for an iPhone, but fortunately the price is only $300. If she buys an iPhone, her consumer surplus is
a. zero.
b. $200.
c. $300.
d. $500.
e. $800.

(2) The graph below shows the demand for sandwiches. If the market price of sandwiches falls from $6 to $4, then total consumer surplus
a. increases by $2000.
b. increases by $3000.
c. increases by $4000.
d. decreases by $2000.
e. decreases by $3000.



(3) Suppose there is a change in government policy affecting the automobile industry. Which of the following outcomes would be a *Pareto improvement*?
a. Producers gain $5 billion while consumers lose $10 billion.
b. Producers gain $10 billion while consumers lose $5 billion.
c. Producers gain $5 billion while consumers are unaffected.
d. Both (b) and (c).
e. All of the above.

(4) To pass the compensation test of Kaldor and Hicks, a change in the economy must result in
a. winners but no losers.
b. gains to winners that exceed any losses to losers.
c. at least some winners.
d. cost savings for the government.
e. a rise in wages, salaries, and other compensation.

(5) A perfectly competitive firm expects that if it increases its output, this will cause the price to
a. increase.
b. decrease.
c. stay the same.
d. cannot be determined from information given.

(6) Suppose the paper industry is perfectly competitive and the price of a ream of paper is $5. Then any firm in the paper industry believes its marginal revenue is
a. more than $5.
b. less than $5.
c. exactly equal to $5.
d. zero.

(7) Suppose that the bread industry is producing 3 million loaves of bread per month for some reason, and that at this level of output, the marginal benefit to consumers of a loaf of bread is $3, but the marginal cost of producing a loaf of bread is only $2. Society would be better off if
a. fewer loaves of bread were produced.
b. more loaves of bread were produced.
c. Because marginal benefit exceeds marginal cost, production is already optimal and society cannot be made better off by increasing or decreasing production.
d. Cannot be determined from information given.

(8) A price floor (or legal minimum price) on bananas, if it were binding, would create
a. excess demand for bananas.
b. excess supply of bananas.
c. neither excess demand nor excess supply.
d. Cannot be determined from information given.

(9) Which of the following government controls on a competitive market cause the quantity traded to *increase?*
a. price floor (legal minimum price).
b. price ceiling (legal maximum price).
c. quota on sellers.
d. quota on buyers.
e. all of the above.
f. none of the above.

(10) Which of the following government controls on a competitive market cause a loss of social welfare—that is, social deadweight loss?
a. price floor (or legal minimum price).
b. price ceiling (or legal maximum price).
c. quota on sellers.
d. quota on buyers.
e. all of the above.
f. none of the above.

[end of quiz]