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

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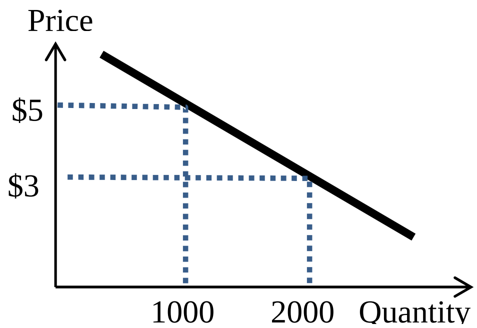
QUIZ 3 VERSION B
"Welfare Analysis"

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) Brandon is willing to pay $600 for an iPad, but fortunately the price is only $400. If he buys an iPad, his consumer surplus is
a. zero.
b. $200.
c. $400.
d. $600.
e. $1000.

(2) The graph below shows the demand for sandwiches. If the market price of sandwiches rises from $3 to $5, then total consumer surplus
a. decreases by $2000.
b. decreases by $3000.
c. decreases by $4000.
d. increases by $2000.
e. increases 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 $1 billion while consumers are unaffected.
b. Producers gain $1 billion while consumers lose $2 billion.
c. Producers gain $2 billion while consumers lose $1 billion.
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. cost savings for the government.
b. winners but no losers.
c. gains to winners that exceed any losses to losers.
d. at least some winners.
e. a rise in wages, salaries, and other compensation.

(5) A perfectly competitive firm expects that if it decreases its output, this will cause the price to
a. stay the same.
b. decrease.
c. increase.
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. exactly equal to $5.
c. less than $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 $2, but the marginal cost of producing a loaf of bread is $3. Society would be better off if
a. fewer loaves of bread were produced.
b. more loaves of bread were produced.
c. Because marginal cost exceeds marginal benefit, 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 ceiling (or legal maximum price) on cheese, if it were binding, would create
a. excess demand for cheese.
b. excess supply of cheese.
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 *decrease?*
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 gain in social welfare?
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]