ECON1005 Assignment 6

1. Producer surplus is equal to
   a. the area under the supply curve
   b. the difference between price and average cost for all units sold
   c. the difference between price and marginal cost for all units sold
   d. the firm's profit when fixed costs exist
   e. None of the above

2. At any given market price, consumer surplus is
   a. the area above the supply curve and below the demand curve
   b. the area below the supply curve and above the demand curve
   c. the area under the demand curve and above the market price
   d. the price multiplied by the number of units demanded
   e. the number of units demanded multiplied by the cost of producing them.

3. At any quantity at which the demand curve lies above the supply curve
   a. economic efficiency is achieved
   b. the cost of producing the last unit exceeds its value to some consumer
   c. marginal cost exceeds the market price
   d. the market is Pareto efficient
   e. the value of that unit to some consumer exceeds the cost of producing it

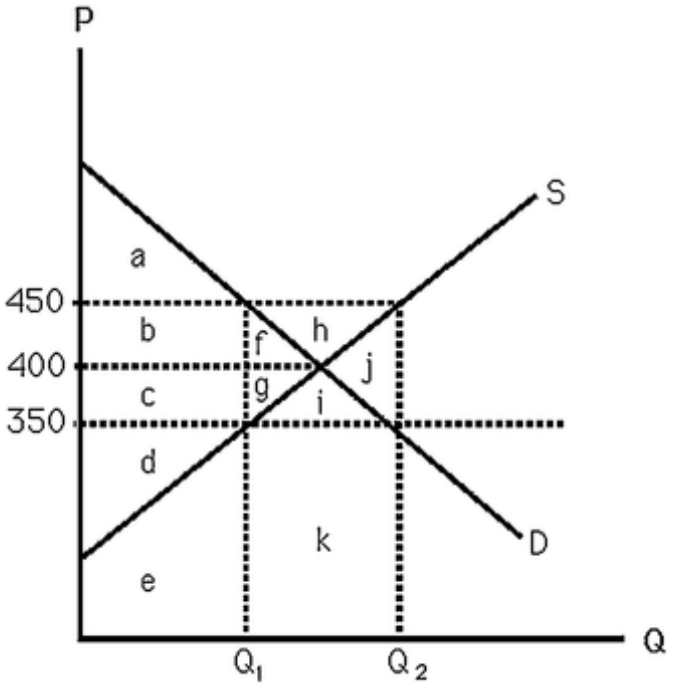
4. Suppose that a perfectly competitive market is in equilibrium. Then,
   a. the equilibrium quantity provides the maximum possible benefit to buyers
   b. the equilibrium quantity provides the maximum possible benefit to buyers and sellers combined
   c. total (producer + consumer) surplus is equal to price x quantity.
   d. an additional unit, if produced, would produce a benefit that exceeds its cost of production
   e. an additional unit could be produced at a cost to some producer that is less than the benefit to some consumer

5. A competitive market maximizes social welfare because in a competitive market
   a. profits are zero
   b. willingness to pay equals marginal cost when the equilibrium quantity is produced
   c. willingness to pay equals average cost when the equilibrium quantity is produced
   d. there is free entry and exit
   e. there are homogeneous products

6. The deadweight loss from a price floor
   a. is caused by a decrease in quantity
   b. is the difference (in dollars) between producer surplus and consumer surplus
   c. is the area above the market price and below the demand curve
   d. is the area above both the market price and the supply curve
   e. is a Pareto improvement

7. A price floor in a perfectly competitive market
   a. creates more harm for sellers than gain for buyers
   b. is effective only it is set at the equilibrium price
   c. is Pareto efficient
   d. can turn an inefficient outcome into an efficient outcome
   e. creates more harm for buyers than gain for sellers

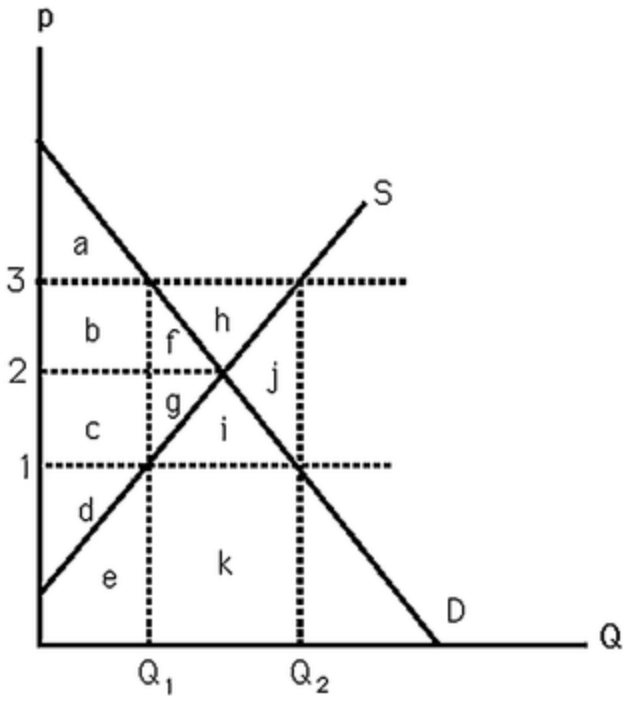
8. A price ceiling in a perfectly competitive market
   a. leads to the same result as if the market were monopolized
   b. results in deadweight loss
   c. is effective only if it is set above the equilibrium price
   d. may result from collusion among the firms selling in that market
   e. may result from collusion among the consumers buying in that market



9. The above figure shows supply and demand curves for the rental market of apartment units in a large city. If the city government passes a law that establishes $350 per month as the legal maximum rent, the deadweight loss equals
   a. b + c
   b. f
   c. a
   d. f + g
   e. None of the above

10. The above figure shows supply and demand curves for rental market of apartment units in a large city. If the city government collects a tax of $100 per month, the consumer surplus equals
   a. a +b + c
   b. a + b + f
   c. a
   d. f + g
   e. None of the above

11. The above figure shows supply and demand curves for rental market of apartment units in a large city. If the city government collects a tax of $100 per month, the producer surplus equals
   a. b + c + d
   b. d
   c. a
   d. b + c + d + f + g + h
   e. None of the above



12. The above figure shows supply and demand curves for milk. In an effort to help farmers, the government passes a law that establishes a $3 per gallon price floor and promises to purchase as much milk as the producers would like to sell. As a result, how much does government need to purchase?

a. Q_2
b. Q_1
c. $Q_2 - Q_1$
d. The government does not need to purchase any milk
e. More than Q_2

13. The above figure shows supply and demand curves for milk. In an effort to help farmers, the government passes a law that establishes a $3 per gallon price floor and promises to purchase as much milk as the producers would like to sell. As a result, *producer surplus* is

a. b + c + d
b. b + c + d + f + g + h
c. a
d. a + b + c + f + g + i
e. f + g + i + j + k

14. The above figure shows supply and demand curves for milk. In an effort to help farmers, the government passes a law that establishes a $3 per gallon price floor and promises to purchase as much milk as the producers would like to sell. As a result, *consumer surplus* is
    a. b + c + d
    b. b + c + d + f + g + h
    c. a
    d. a + b + c + f + g + i
    e. f + g + i + j + k

15. The above figure shows supply and demand curves for milk. In an effort to help farmers, the government passes a law that establishes a $3 per gallon price floor and promises to purchase as much milk as the producers would like to sell. As a result, the deadweight loss is
    a. f + g + j
    b. j
    c. f + g
    d. f + g + h + i + j + k
    e. f + g + i + j + k