1) **An effective price ceiling is best defined as a price:**
   A) imposed by government below equilibrium price.
   B) imposed by government above equilibrium price.
   C) higher than any consumer is willing to pay.
   D) lower than any supplier is willing to sell.

Use the following to answer question 2:

![Graph showing supply (S) and demand (D) curves with price (Pc) and quantities (Q0, Q1).]

2) **Refer to the graph above. If the price is set at Pc:**
   A) a non-price rationing mechanism must determine which producers will be able to sell the product.
   B) a non-price rationing mechanism must determine which buyers will be able to purchase the product.
   C) anyone willing and able to pay the asking price will be able to purchase the product.
   D) the demand curve will shift to the left to achieve a new equilibrium.
3) The most likely impact of an effective price floor is:
   A) the supply curve will shift to the right.
   B) the demand curve will shift to the left.
   C) a surplus will develop.
   D) a shortage will develop.

4) Suppose a price floor is imposed on eggs above their equilibrium price. The likely result will be:
   A) a lower equilibrium price for eggs as the demand curve for eggs shifts left.
   B) a higher equilibrium price for eggs as the supply curve for eggs shifts left.
   C) a decrease in the quantity of eggs demanded.
   D) an increase in the quantity of eggs demanded.

5) To affect the market outcome a price ceiling
   A) must be set below the black market price.
   B) must be set below the equilibrium price.
   C) must be set below the price floor.
   D) must be set below the legal price.

6) Suppose the demand curve for a product is vertical and the supply curve is upward sloping. If a unit tax is imposed in the market for this product,
   A) buyers share the burden of the tax with government.
   B) the tax burden will be shared equally between buyers and sellers.
   C) sellers bear the entire burden of the tax.
   D) buyers bear the entire burden of the tax.

7) Pollution is an example of a
   A) private cost.
   B) public good.
   C) negative externality
   D) positive externality.

8) Which of the following would result in a positive externality?
   A) An electric utility burns coal that causes acid rain.
   B) Medical research results in a cure for malaria.
   C) A local government establishes a price ceiling on rental apartments.
   D) McDonald's adds new fat-free items to its menu.
9) A **positive externality results when**
   A) when people who live in one country benefit from the production of a good or service that occurs in another country.
   B) people who are not directly involved in producing or paying for a good or service benefit from it.
   C) someone pays for a good or service even though she is not directly affected by the production or consumption of it.
   D) economists are sure that a good or service provides benefits to consumers.

10) **Which of the following describes how a positive externality affects a competitive market?**
   A) The externality causes a difference between the private benefit from production and the social cost of production.
   B) The externality causes quantity demanded to exceed quantity supplied.
   C) The externality causes a difference between the social cost of production and the social cost of consumption.
   D) The externality causes a difference between the private benefit from consumption and the social benefit.

11) **When there is a positive externality**
   A) the private benefit received by consumers is greater than the private cost.
   B) the private benefit received by consumers is greater than the social benefit.
   C) the social benefit received by consumers is greater than the private benefit.
   D) the private benefit received by consumers is greater than the external benefit.

12) **If the social cost of producing a good or service exceeds the private cost,**
   A) a positive externality exists.
   B) a negative externality exists.
   C) the market achieves economic efficiency.
   D) the sum of consumer surplus and producer surplus is maximized.

13) **Which of the following statements describes the Coase Theorem?**
   A) Completely eliminating an externality is not economically efficient.
   B) Under some circumstances private solutions to the problems that result from externalities can be found.
   C) It is not possible to completely eliminate an externality.
   D) A negative externality occurs when the marginal social cost of production exceeds the social benefit.

14) **Classifying a good as rival means**
   A) that the good is produced in a competitive market.
   B) anyone who does not pay for the good cannot consume it.
   C) that when one person consumes a unit of the good no one else can consume it.
   D) that there is a shortage of the good.
15) A private good is
   A) a good that is nonrivalrous and nonexcludable.
   B) a good that is nonrivalrous and excludable.
   C) a good that is rivalrous and nonexcludable.
   D) a good that is rivalrous and excludable.

16) It is difficult for a private market to provide the economically efficient quantity of a public good because
   A) individual preferences are not revealed in the market for the good.
   B) public goods produce positive and negative externalities.
   C) by law governments cannot use cost-benefit analysis to determine this quantity.
   D) it is too expensive to produce the necessary amount of the good.

17) When a firm experiences a positive technological change
   A) the firm is able to produce more output using the same inputs, or the same output using fewer inputs.
   B) the price of a share of the firm's stock rises.
   C) the value of the firm's assets rises.
   D) the firm will hire additional workers in order to increase production.

18) When firms analyze the relationship between their level of production and their costs they separate the time period involved into
   A) 6 months or less; 6 months to 1 year; more than 1 year.
   B) morning and evening.
   C) the short run and the long run.
   D) a fixed period and a variable period.

19) Diminishing marginal product of labor occurs when adding another unit of labor
   A) changes output by an amount smaller than the output added by the previous unit of labor.
   B) decreases output by an amount smaller than the output added by the previous unit of labor.
   C) decreases output.
   D) increases output by an amount larger than the output added by the previous unit of labor.

20) Which of the following explains why the marginal cost curve has a U shape?
   A) Initially, the average product of labor rises, then falls.
   B) Initially, the average cost of production rises, then falls.
   C) Initially, the marginal product of labor rises, then falls.
   D) Initially, the marginal product of labor falls, then rises.

21) Marginal cost is calculated for a particular increase in output by
   A) multiplying the total cost by the change in output.
   B) dividing the change in total cost by the change in output.
   C) dividing the total cost by the change in output.
   D) multiplying the change in total cost by the change in output.
22) When the marginal product of labor rises
A) the average total cost of production also rises.
B) the marginal cost of production will exceed the average total cost.
C) the marginal cost of production also rises.
D) the marginal cost of production falls.

23) Which of the following statements is false?
A) Marginal cost will equal average total cost when marginal cost is at its lowest point.
B) Marginal cost will equal average total cost when average total cost is at its lowest point.
C) When marginal cost is less than average total cost, average total cost will fall.
D) When marginal cost is greater than average total cost, average total cost will rise.

24) Average fixed cost is equal to
A) fixed cost multiplied by the quantity of output produced.
B) average total cost plus average variable cost.
C) fixed cost divided by the quantity of output produced.
D) the amount of total cost that does not change as output changes in the short run.

25) As output increases
A) average variable cost becomes smaller and smaller.
B) marginal cost increases continuously.
C) the difference between average total cost and average variable cost decreases.
D) the difference between average total cost and average variable cost becomes greater and greater.

26) Which of the following is true at the output level where average total cost is at its minimum?
A) Average variable cost equals fixed cost.
B) Average total cost equals average fixed cost.
C) Marginal cost equals average variable cost.
D) Marginal cost equals average total cost.

27) Economies of scale occur when
A) the demand for a firm's output increases.
B) a firm's long-run average total costs fall as it increases the quantity of output it produces.
C) short-run marginal cost falls.
D) the marginal product of labor is greater than the average product of labor.
28) Which of the following is not a reason why firms experience economies of scale?
   A) Larger firms may be able to purchase inputs at lower costs than smaller competitors.
   B) Workers and managers can become more specialized, enabling them to be more productive.
   C) As output increases the managers can begin to have difficulty coordinating the operations of their firms.
   D) Technology can make it possible to increase production with a smaller increase in at least one input.

29) Diseconomies of scale occur when
   A) short-run average costs rise as a firm expands its plant size.
   B) long-run labor costs rise as a firm increases its output.
   C) long-run average costs rise as a firm increases its output.
   D) long-run average costs fall as a firm expands its plant size.

30) A curve showing the lowest cost at which a firm is able to produce a given level of output in the long run is
   A) a long-run average total cost curve.
   B) a minimum efficient scale curve.
   C) a long-run production function.
   D) a long-run marginal cost curve.

31) The level of output at which all economies of scale have been exhausted is known as
   A) constant returns to scale.
   B) the economically efficient output level.
   C) minimum efficient scale.
   D) optimal economic size.