Name: ______________________ Class: __________________ Date: _________ ID: A

Econ 101 Tutorial 4

Multiple Choice

Identify the choice that best completes the statement or answers the question.

Table 3-2

Assume that Aruba and Iceland can switch between producing coolers and producing radios at a constant rate.

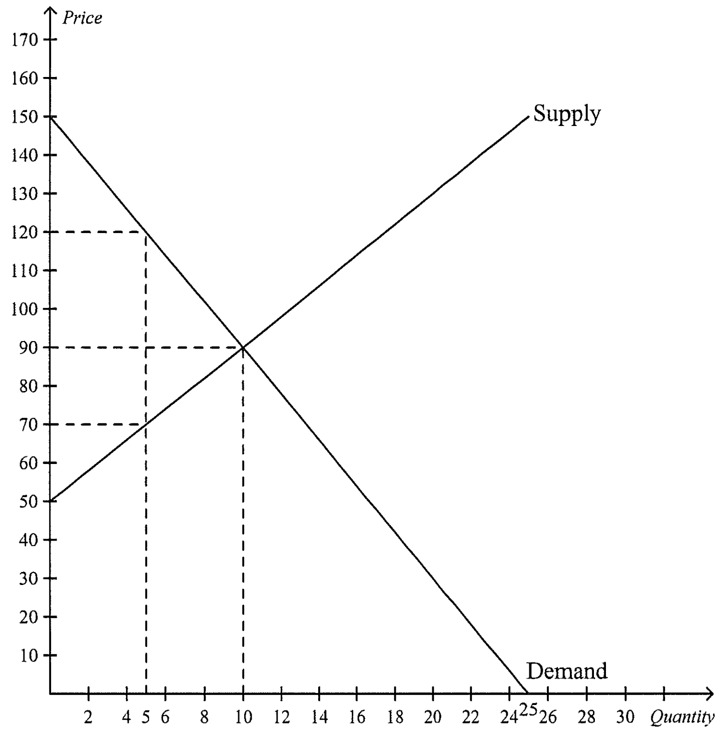
	Labor Hours Needed to Make 1	
	Cooler	Radio
Aruba	2	5
Iceland	1	4

____ 1. **Refer to Table 3-2.** Iceland should export

a. coolers and import radios.
b. radios and import coolers.
c. both goods and import neither good.
d. neither good and import both goods.

Name: ______________________ **ID: A**

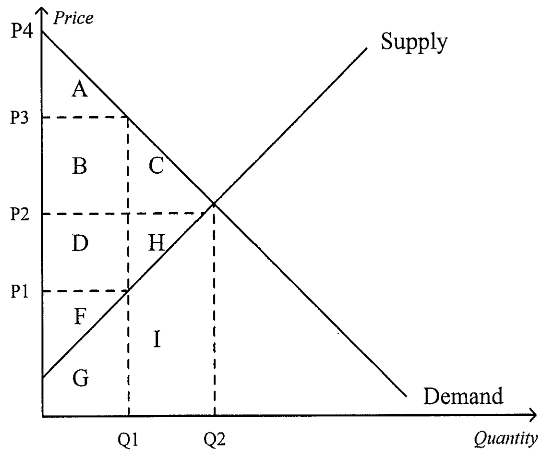
Figure 7-5



____ 2. **Refer to Figure 7-5.** If the government imposes a price floor of $120 in this market, then consumer surplus will decrease by

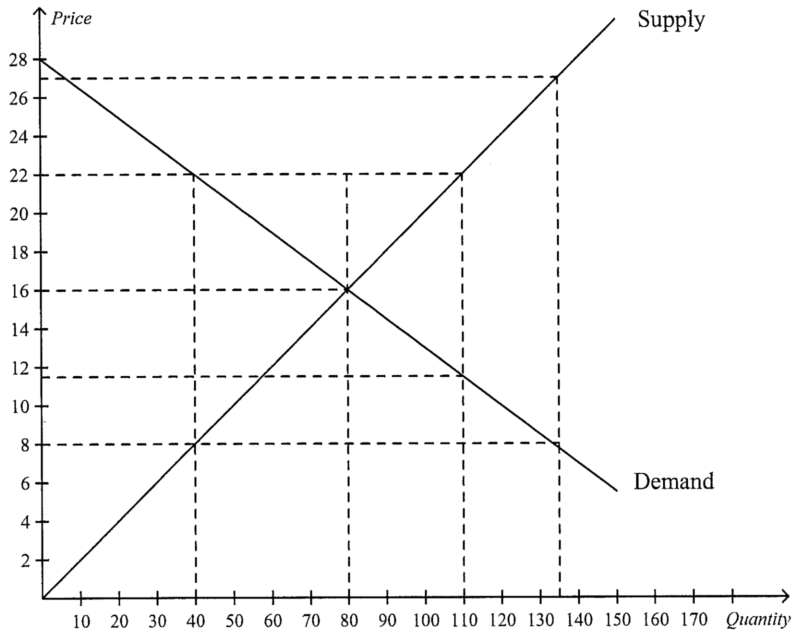
a. $75.
b. $125.
c. $225.
d. $300.

Figure 7-19



____ 3. **Refer to Figure 7-19**. If the price were P3, consumer surplus would be represented by the area
   a. A.
   b. A+B+C.
   c. D+H+F.
   d. A+B+C+D+H+F.

Figure 7-18



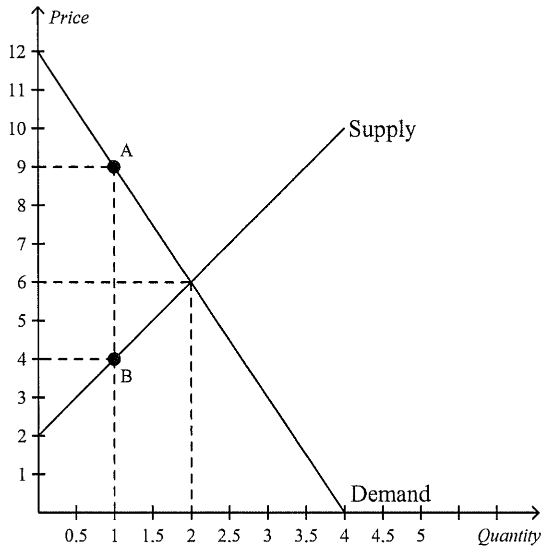
____ 4. **Refer to Figure 7-18**. If the price decreases from $22 to $16 due to a shift in the supply curve, consumer surplus increases by
   a. $120.
   b. $360.
   c. $480.
   d. $600.

____ 5. **Refer to Figure 7-18**. Assume demand increases and as a result, equilibrium price increases to $22 and equilibrium quantity increases to 110. The increase in producer surplus due to new producers entering the market would be
a. $90.
b. $210.
c. $360.
d. $480.

____ 6. **Refer to Figure 7-18**. Assume demand increases and as a result, equilibrium price increases to $22 and equilibrium quantity increases to 110. The increase in producer surplus to producers already in the market would be
a. $90.
b. $210.
c. $360.
d. $480.

____ 7. **Refer to Figure 7-18.** Assume demand increases and as a result, equilibrium price increases to $22 and equilibrium quantity increases to 110. The increase in producer surplus would be
a. $210.
b. $360.
c. $480.
d. $570.

Figure 8-2
The vertical distance between points A and B represents a tax in the market.



____ 8. **Refer to Figure 8-2.** The loss of consumer surplus as a result of the tax is
a. $1.50.
b. $3.
c. $4.50.
d. $6.

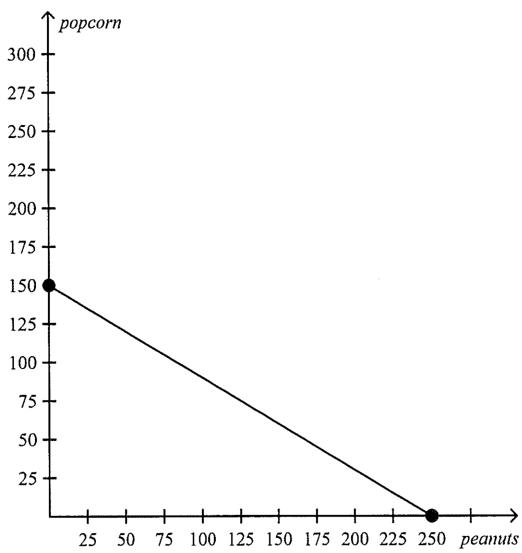
Name: ______________________ ID: A

____ 9. **Refer to Figure 8-2.** The loss of producer surplus as a result of the tax is
a. $1.
b. $2.
c. $3.
d. $4.

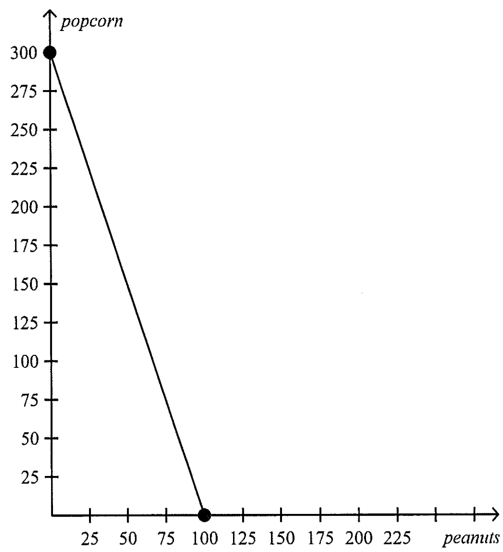
Short Answer

10. The only two countries in the world, Alpha and Omega, face the following production possibilities frontiers.

Alpha's Production Possibilities Frontier



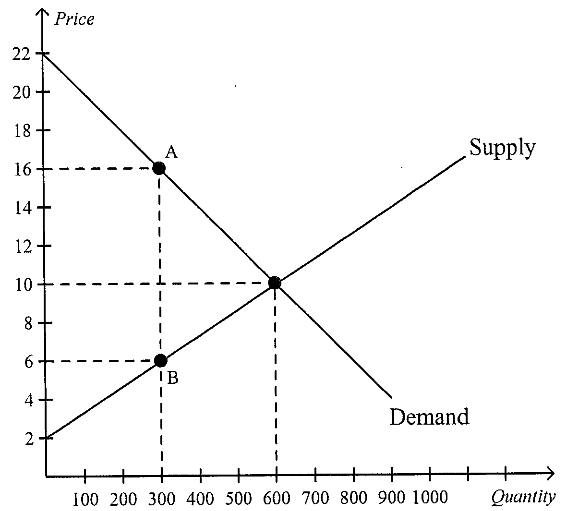
Omega's Production Possibilities Frontier



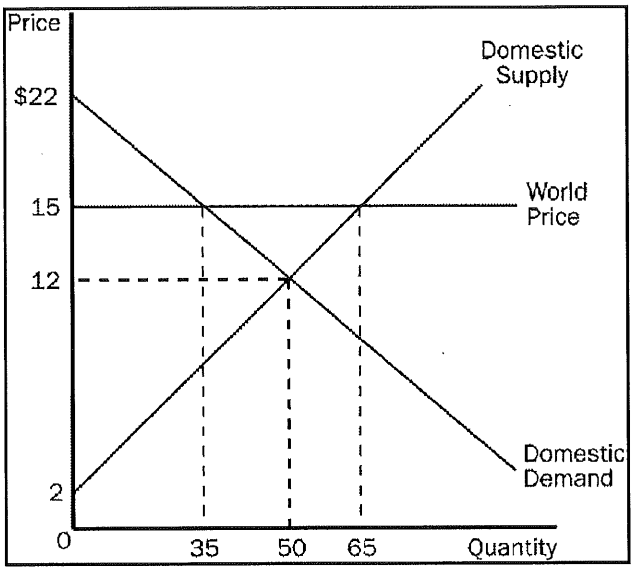
a. Assume that each country decides to use half of its resources in the production of each good. Show these points on the graphs for each country as point A.
b. If these countries choose not to trade, what would be the total world production of popcorn and peanuts?
c. Now suppose that each country decides to specialize in the good in which each has a comparative advantage. By specializing, what is the total world production of each product now?
d. If each country decides to trade 100 units of popcorn for 100 units of peanuts, show on the graphs the gain each country would receive from trade. Label these points B.

11. Gary and Diane must prepare a presentation for their marketing class. As part of their presentation, they must do a series of calculations and prepare 50 PowerPoint slides. It would take Gary 10 hours to do the required calculation and 10 hours to prepare the slides. It would take Diane 12 hours to do the calculations and 20 hours to prepare the slides.
    a. How much time would it take the two to complete the project if they divide the calculations equally and the slides equally?
    b. How much time would it take the two to complete the project if they use comparative advantage and specialize in calculating or preparing slides?
    c. If Diane and Gary have the same opportunity cost of $5 per hour, is there a better solution than for each to specialize in calculating or preparing slides?

12. Suppose the government levies a tax of the vertical distance from point A to point B. Using the graph shown, determine the value of each of the following:
    a. equilibrium price before the tax
    b. consumer surplus before the tax
    c. producer surplus before the tax
    d. total surplus before the tax
    e. consumer surplus after the tax
    f. producer surplus after the tax
    g. total tax revenue to the government
    h. total surplus (consumer surplus+producer surplus+tax revenue) after the tax
    i. deadweight loss

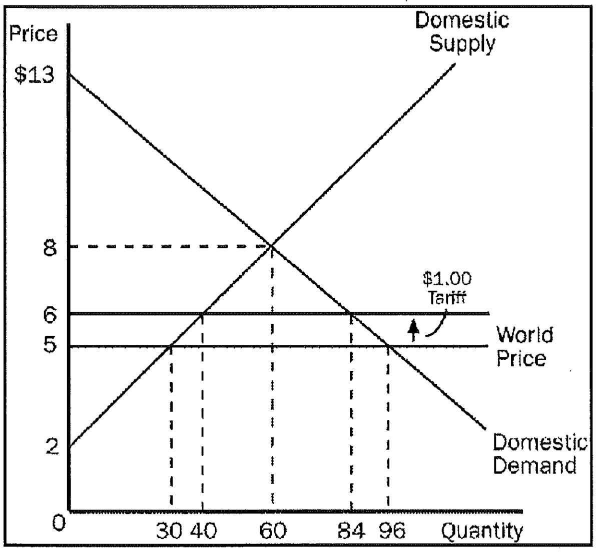


13. Use the graph to answer the following questions about CDs.



a. What is the equilibrium price of CDs before trade?
b. What is the equilibrium quantity of CDs before trade?
c. What is the price of CDs after trade is allowed?
d. What is the quantity of CDs exported after trade is allowed?
e. What is the amount of consumer surplus before trade?
f. What is the amount of consumer surplus after trade?
g. What is the amount of producer surplus before trade?
h. What is the amount of producer surplus after trade?
i. What is the amount of total surplus before trade?
j. What is the amount of total surplus after trade?
k. What is the change in total surplus because of trade?

14. Using the graph, assume that the government imposes a $1 tariff on hammers. Answer the following questions given this information.



a. What is the domestic price and quantity demanded of hammers after the tariff is imposed?
b. What is the quantity of hammers imported before the tariff?
c. What is the quantity of hammers imported after the tariff?
d. What would be the amount of consumer surplus before the tariff?
e. What would be the amount of consumer surplus after the tariff?
f. What would be the amount of producer surplus before the tariff?
g. What would be the amount of producer surplus after the tariff?
h. What would be the amount of government revenue because of the tariff?
i. What would be the total amount of deadweight loss due to the tariff?