

## AP Micro Economics

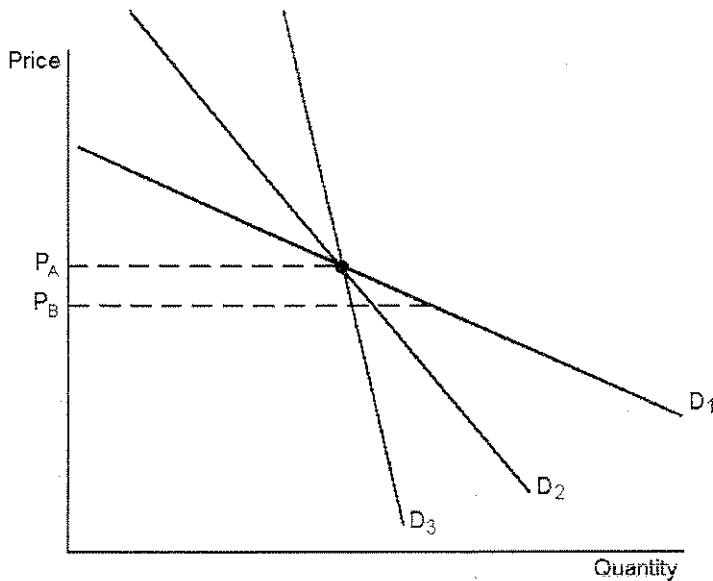
### Make-Up: Unit II-B

#### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question. Mark ALL answers on the answer sheet that is provided. PLEASE! DO NOT WRITE ON THIS TEST. Perform all calculations on the answer sheet.

- \_\_\_\_\_ 1. The price elasticity of demand measures
  - a. how responsive buyers are to a change in income.
  - b. how responsive sellers are to a change in price.
  - c. how responsive buyers are to a change in price.
  - d. how responsive sellers are to a change in buyers' income.
- \_\_\_\_\_ 2. If a good is a necessity, demand for the good would tend to be
  - a. elastic.
  - b. inelastic.
  - c. unit elastic.
  - d. horizontal.
- \_\_\_\_\_ 3. Demand for a good would tend to be more elastic,
  - a. the greater the availability of complements.
  - b. the longer the period of time considered.
  - c. the broader the definition of the market.
  - d. the fewer substitutes there are.
- \_\_\_\_\_ 4. If the price elasticity of demand for a good is 4.0, then a 10 percent increase in price would result in a
  - a. 4.0 percent decrease in the quantity demanded.
  - b. 10 percent decrease in the quantity demanded.
  - c. 40 percent decrease in the quantity demanded.
  - d. 400 percent decrease in the quantity demanded.

Graph 5-3



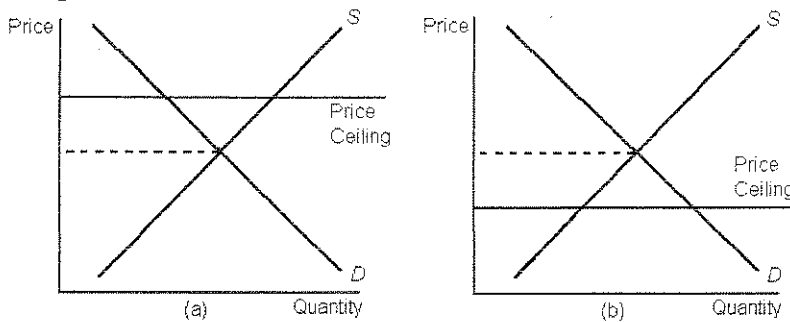
- \_\_\_\_\_ 5. In Graph 5-3, as price falls from  $P_A$  to  $P_B$ , which demand curve is most elastic?
- $D_1$
  - $D_2$
  - $D_3$
  - All of the above are equally elastic.
- \_\_\_\_\_ 6. Last year, Joan bought 50 pounds of hamburger when the household income was \$40,000. This year, the household income was only \$30,000 and Joan bought 60 pounds of hamburger. All else constant Joan's income elasticity of demand for hamburger is
- positive, so Joan considers hamburger to be an inferior good.
  - positive, so Joan considers hamburger to be a normal good and a necessity.
  - negative, so Joan considers hamburger to be an inferior good.
  - negative, so Joan considers hamburger to be a normal good.
- \_\_\_\_\_ 7. Assume that a 4 percent increase in income results in a 2 percent increase in the quantity demanded of a good. The income elasticity of demand for the good is
- negative and therefore the good is an inferior good.
  - negative and therefore the good is a normal good.
  - positive and therefore the good is an inferior good.
  - positive and therefore the good is a normal good.
- \_\_\_\_\_ 8. Cross-price elasticity of demand measures
- how the quantity demanded of a good changes as price changes.
  - how the quantity demanded of one good changes as the price of another good changes.
  - how the quantity demanded of a good changes as income changes.
  - how the price of a good is affected when income changes.
- \_\_\_\_\_ 9. If the cross-price elasticity of demand is 1.25, then the two goods would be
- complements.
  - luxuries.
  - normal goods.
  - substitutes.

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DO NOT WRITE ON THE TEST! RECORD ALL ANSWERS ON THE ANSWER SHEET

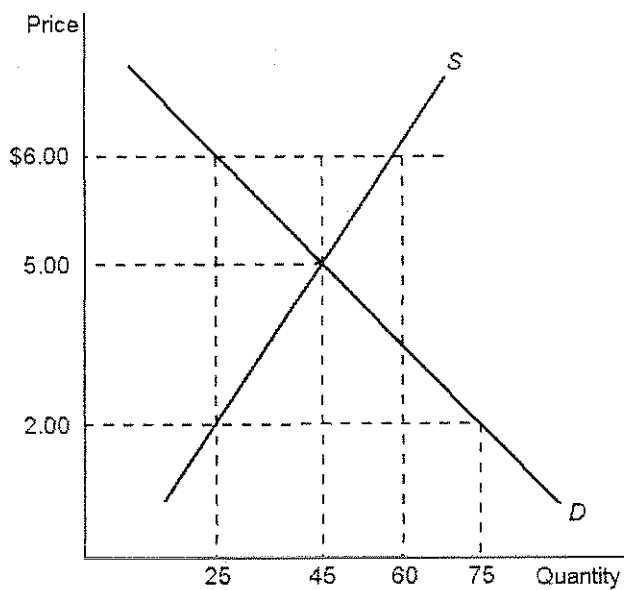
10. Suppose the government increases the tax on gasoline in order to raise revenue. Since raising the gasoline tax would increase the price of gasoline, the government must be assuming that
- the demand for gasoline is price elastic.
  - the demand for gasoline is price inelastic.
  - the demand for gasoline is price unit elastic.
  - the tax on gasoline will not affect the consumption of gasoline.
11. Get Smart University is contemplating increasing tuition to enhance revenue. If GSU feels that raising tuition would enhance revenue,
- they are necessarily ignoring the law of demand.
  - they are assuming that the demand for university education is elastic.
  - they are assuming that the supply of university education is elastic.
  - they are assuming that the demand for university education is inelastic.
12. Because the demand for wheat tends to be inelastic, the development of a new, more productive hybrid wheat would tend to
- increase the total revenue of wheat farmers.
  - decrease the total revenue of wheat farmers.
  - weaken the demand for wheat.
  - weaken the supply of wheat.
13. Suppose a producer is able to separate customers into two groups, one having a price inelastic demand and the other having a price elastic demand. If the producer's objective is to increase total revenue, she should
- increase the price charged to customers with the price elastic demand and decrease the price charged to customers with the price inelastic demand.
  - decrease the price charged to customers with the price elastic demand and increase the price charged to customers with the price inelastic demand.
  - charge the same price to both groups of customers.
  - increase the price for both groups of customers.

Graph 6-1



14. In which panel(s) in Graph 6-1 would there be a shortage for CDs at the market price?
- panel (a)
  - panel (b)
  - panel (a) and panel (b)
  - neither panel (a) nor panel (b)

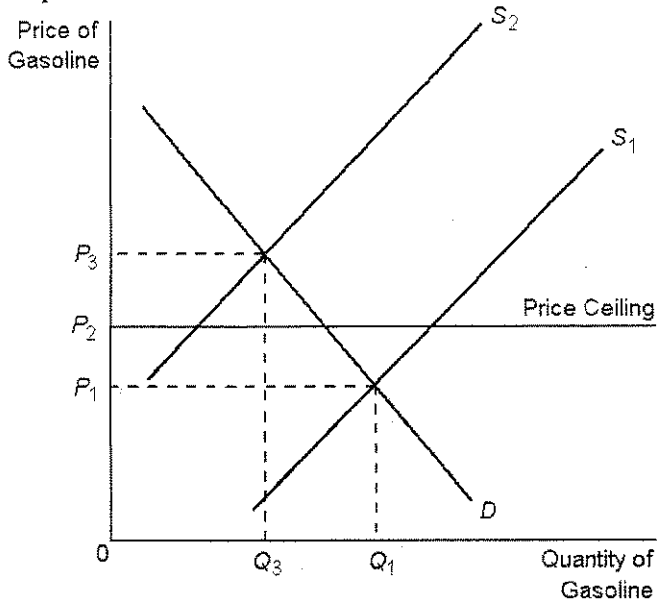
Graph 6-3



15. According to Graph 6-3, if the government imposes a binding price floor of \$6.00 in this market, the result would be
- a surplus of 15.
  - a surplus of 35.
  - a shortage of 30.
  - a shortage of 50.

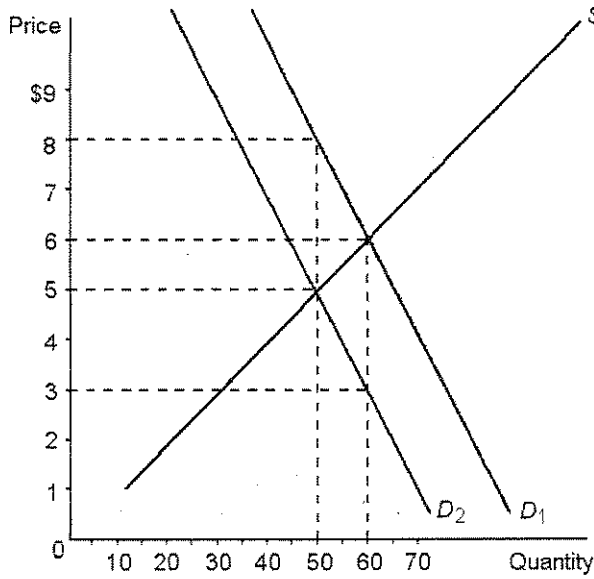
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Graph 6-4



- \_\_\_\_\_ 16. According to Graph 6-4, when the supply curve for gasoline shifts from  $S_1$  to  $S_2$
- the price will increase to  $P_3$ .
  - a surplus will occur at the new market price of  $P_2$ .
  - the market price will stay at  $P_1$  due to the price ceiling.
  - a shortage will occur at the price ceiling of  $P_2$ .
- \_\_\_\_\_ 17. The term tax incidence refers to
- the Boston Tea Party.
  - the "flat tax" movement.
  - the division of the tax burden between buyers and sellers.
  - the division of the tax burden between sales taxes and income taxes.

Graph 6-7

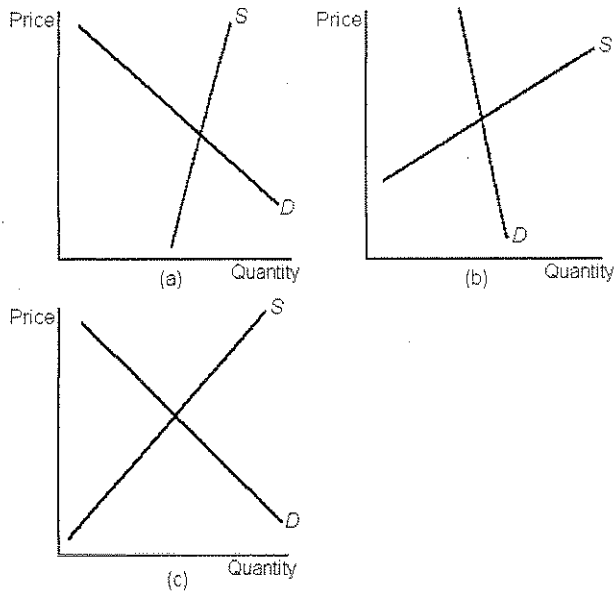


- \_\_\_\_\_ 18. According to Graph 6-7, the price buyers will pay after the tax is imposed is
- \$8.00.
  - \$6.00.
  - \$5.00.
  - \$3.50.
- \_\_\_\_\_ 19. According to Graph 6-7, the price sellers receive after the tax is imposed is
- \$8.00.
  - \$6.00.
  - \$5.00.
  - \$3.50.

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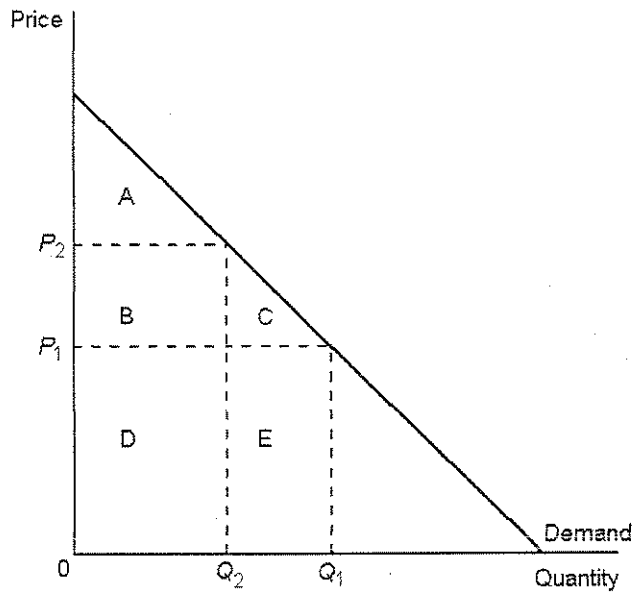
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Graph 6-9



- \_\_\_\_\_ 20. Refer to Graph 6-9. In which market will the majority of a tax be paid by the buyer?
- a. market (a)
  - b. market (b)
  - c. market (c)
  - d. all of the above

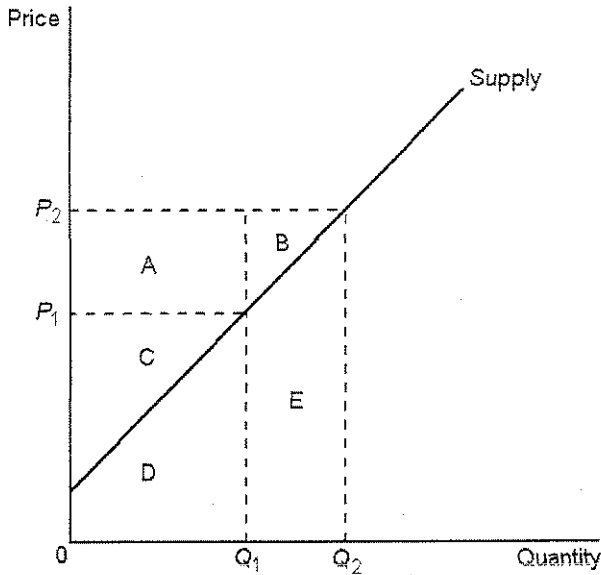
Graph 7-1



21. Refer to Graph 7-1. When the price is  $P_1$ , consumer surplus is
- A.
  - $A + B$ .
  - $A + B + C$ .
  - $A + B + D$ .



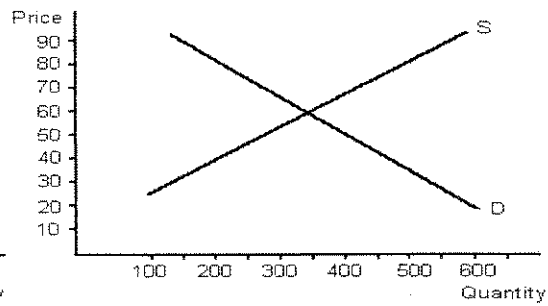
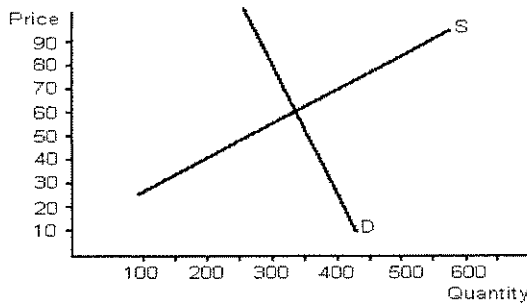
Graph 7-3



- \_\_\_\_\_ 22. According to Graph 7-3, when the price is  $P_2$ , producer surplus is
- A.
  - $A + C$ .
  - $A + B + C$ .
  - $D + E$ .
- \_\_\_\_\_ 23. We can say that the allocation of resources is efficient if
- producer surplus is maximized.
  - consumer surplus is maximized.
  - total surplus is maximized.
  - None of the above are correct.
- \_\_\_\_\_ 24. Smith's current rates of purchases are such that the marginal utility of shirts is 16 and the marginal utility of shoes is 4. If shirts and shoes are priced at \$8 and \$2 respectively, one can conclude that Smith
- is spending too much on shirts and not enough on shoes
  - is spending too much on shoes and not enough on shirts
  - is spending his income on shirts and shoes as as to maximize his satisfaction
  - should buy shirts and shoes in the same respective quantities as the total utility derived from each

Short Answer

25. Use the graphs shown to answer the following questions.



- Determine equilibrium price and quantity for each graph.
- Given demand and supply, what would total revenue be for each graph?
- Assume that supply shifts to the left on both graphs by 100, raising price. Given the new equilibrium price and equilibrium quantity, what would total revenue be on each graph?
- What do your answers to C tell you about the relationship between elasticity of demand and total revenue?

**Make-Up: Unit II-B  
Answer Section**

**MULTIPLE CHOICE**

- |     |        |        |
|-----|--------|--------|
| 1.  | ANS: C | PTS: 1 |
| 2.  | ANS: B | PTS: 1 |
| 3.  | ANS: B | PTS: 1 |
| 4.  | ANS: C | PTS: 1 |
| 5.  | ANS: A | PTS: 1 |
| 6.  | ANS: C | PTS: 1 |
| 7.  | ANS: D | PTS: 1 |
| 8.  | ANS: B | PTS: 1 |
| 9.  | ANS: D | PTS: 1 |
| 10. | ANS: B | PTS: 1 |
| 11. | ANS: D | PTS: 1 |
| 12. | ANS: B | PTS: 1 |
| 13. | ANS: B | PTS: 1 |
| 14. | ANS: B | PTS: 1 |
| 15. | ANS: B | PTS: 1 |
| 16. | ANS: D | PTS: 1 |
| 17. | ANS: C | PTS: 1 |
| 18. | ANS: A | PTS: 1 |
| 19. | ANS: C | PTS: 1 |
| 20. | ANS: B | PTS: 1 |
| 21. | ANS: C | PTS: 1 |
| 22. | ANS: C | PTS: 1 |
| 23. | ANS: C | PTS: 1 |
| 24. | ANS: C | PTS: 1 |

**SHORT ANSWER**

25. ANS:
- The equilibrium price would be \$60 and the equilibrium quantity would be 350.
  - Total revenue for both graphs would be \$21,000 ( $\$60 \times 350$ ).
  - On graph A, equilibrium price is now \$72 and equilibrium quantity is 325. Total revenue for graph A would now be \$23,400. On graph B, equilibrium price is now \$65 and equilibrium quantity is now 300. Total revenue for graph B would now be \$19,500. (See the graphs for this answer.)
  - The answer to C shows the expected outcome. Since the demand curve in graph A is inelastic, we would expect that when price increased, total revenue would increase (from \$21,000 to \$23,400). On graph B, since the demand is elastic, we would expect an increase in price to lower total revenue (from \$21,000 to \$19,500).

PTS: 1