

***Test Bank for Managerial Economics 3rd Edition Froeb  
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CHAPTER 2

- 1) When the market is in equilibrium,
- a) Total surplus is minimized
  - b) Total surplus is maximized without government intervention
  - c) Government maximizes total revenue
  - d) None of the above

ANS: B

- 2) The difference between the minimum price the producer is willing to accept and the price the producer actually receives for a product is referred to as:
- a) market surplus
  - b) market shortage
  - c) buyer surplus
  - d) seller surplus.

ANS: D

- 3) If you are willing to sell your lawn mower business for \$355,000 and someone offers you \$420,000 for it, this transaction will generate:
- a) There is no surplus created
  - b) \$65,000 worth of seller surplus and unknown amount of buyer surplus
  - c) \$30,000 worth of buyer surplus and \$35,000 of seller surplus
  - d) \$65,000 worth of buyer surplus and unknown amount of seller surplus
- ANS: B
- 4) Taxes cause:
- a) Market distortions
  - b) Reduce incentives to work
  - c) Decrease wealth creating transactions
  - d) All of the above

ANS: D

- 5) A price ceiling is binding when
- a) the government sets price above market equilibrium price.
  - b) the equivalent of an implicit tax on producers and an implicit subsidy to consumers.
  - c) the government sets price below market equilibrium price.
  - d) Both b and c.

ANS: B

- 6) Economic reasoning is based on the premise that:
- a) all decisions or actions are costless.
  - b) only non-economic decisions or actions have a cost associated with them.
  - c) only economic decisions or actions have a cost associated with them.
  - d) all decisions and actions have a cost associated with them.

ANS: D

- 7) Social forces:
- a) affect the price mechanism through cultural norms.
  - b) affect the price mechanism through the educational system.
  - c) affect the price mechanism through scarcity.
  - d) do not affect the price mechanism.

ANS: A

- 8) One lesson of business:
- a) is tracing the consequences of a policy
  - b) promoting a policy change to eradicate inefficiencies
  - c) buy a low-valued assets and sell it to someone who values it higher.
  - d) None of the above

ANS: C

- 9) The difference between the maximum price the consumer is willing to pay and the price the consumer actually pays for a product is referred to as:
- a) market surplus
  - b) market shortage
  - c) buyer surplus
  - d) seller surplus.

ANS: C

- 10) If you are willing to sell your car business for \$500,000 and someone offers you \$420,000 for it, this transaction will generate:
- a) There is no surplus created
  - b) \$80,000 worth of seller surplus and unknown amount of buyer surplus
  - c) \$40,000 worth of buyer surplus and \$40,000 of seller surplus
  - d) \$80,000 worth of buyer surplus and unknown amount of seller surplus

ANS: A

11) If you are willing to purchase a house for \$300,000 and you purchase the house for \$275,000, this transaction will generate:

- a) There is no surplus created
  - b) \$25,000 worth of seller surplus and unknown amount of buyer surplus
  - c) \$10,000 worth of buyer surplus and \$15,000 of seller surplus
  - d) \$25,000 worth of buyer surplus and unknown amount of seller surplus
- ANS: D

12) If you are willing to purchase a house for \$500,000 and you purchase the house for \$500,000, this transaction will generate:

- a) There is no surplus created
- b) \$0 worth of seller surplus and unknown amount of buyer surplus
- c) \$0 worth of buyer surplus and unknown amount of seller surplus
- d) Not information provided

ANS: C

13) Total surplus or gains created from trade equal

- a) Seller surplus
- b) Buyer surplus
- c) The summation of seller and buyer surplus
- d) Profits earned by a firm

ANS: C

14) The biggest advantage of capitalism is that

- a) It generates wealth with the help of government intervention
- b) Prices hinder in moving assets from high-value to low-value uses
- c) It forces involuntary exchanges
- d) It creates wealth by letting a person follow his or her own self-interest

ANS: D

15) The authors feel subsidies destroy wealth because

- a) subsidies move assets from lower- to higher- valued uses
- b) subsidies move assets from higher- to lower- valued uses
- c) subsidies help producers only
- d) subsidies help consumers only

ANS: B

16) Government can intervene in the market through

- a) Price floors
- b) Price ceilings
- c) Taxes
- d) All the above

ANS: D

17) Government intervention

- a) provides incentives to conduct business in an illegal black market
- b) plays no role in generating wealth
- c) is the best way to eliminate poverty

d) does not enforce property rights

ANS: A

18) Wealth creating transactions are less likely to occur

- a) Without private property rights
- b) Without contract enforcement
- c) Both a and b
- d) None of the above

ANS: D

19) An example of price floor is a) Minimum wages

- b) Rent controls in New York
- c) Both a and b
- d) None of the above

ANS: A

20) Price ceilings cause

- a) Some suppliers to drop out of the market as they cannot charge the price they were earlier charging
- b) A reduction in the quality of the product
- c) The creation of black markets
- d) All the above

ANS: D

21) A consumer values a car at \$30,000 and a producer values the same car at \$20,000. If the transaction is completed at \$24,000, the transaction will generate:

- a) No surplus
- b) \$4,000 worth of seller surplus and unknown amount of buyer surplus
- c) \$6,000 worth of buyer surplus and \$4,000 of seller surplus
- d) \$6,000 worth of buyer surplus and unknown amount of seller surplus

ANS: C

22) A consumer values a car at \$30,000 and a producer values the same car at \$20,000. If the transaction is completed at \$24,000, the transaction will not take place if:

- a) The tax is equal to the seller surplus
- b) The tax is smaller than the total surplus
- c) The tax is larger than the total surplus
- d) The tax is smaller than the buyer surplus

ANS: C

23) A consumer values a car at \$30,000 and a producer values the same car at \$20,000. If the transaction is completed at \$24,000, what level of tax rate will result in unconsummated transaction?

- a) 0% b)
- 25% c)
- 20% d)
- 40%

ANS: D

24) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If the transaction is completed at \$510,000, the transaction will generate:

- a) No surplus
- b) \$25,000 worth of seller surplus and unknown amount of buyer surplus
- c) \$15,000 worth of buyer surplus and \$25,000 of seller surplus
- d) \$25,000 worth of buyer surplus and unknown amount of seller surplus

ANS: C

25) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If the transaction is completed at \$510,000, what amount of tax will result in unconsummated transaction?

- a) A tax of \$9,000
- b) A tax of \$14,000
- c) A tax of \$15,000
- d) A tax of \$18,000

ANS: D

26) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If the transaction is completed at \$510,000, what level of tax rate will result in unconsummated transaction?

- a) 1%
- b) 5%
- c) 3%
- d) 2%

ANS: B

27) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If sales tax is 8% and is levied on the seller, then the sellers bottom line price is

- a) \$527,000
- b) \$523,800
- c) \$525,000
- d) \$500,000

ANS: B

28) A consumer values a car at \$525,000 and a producer values the same car at \$485,000. If sales tax is 8% and is levied on the buyer, then the buyers top dollar price is

- a) \$525,000
- b) \$523,800
- c) \$485,000
- d) \$486,111

ANS: D

29) Some critics of capitalism argue that

- a) There is too much government intervention in the economy
- b) Involuntary trade generates no wealth
- c) If one person makes money, someone else must be losing it

d) Voluntary trade ensures gains for both consumers and producers

ANS: C

30) Price ceilings are primarily targeted to help a)

No one

b) Consumers

c) Producers

d) Government

ANS: B

31) Price floors are primarily targeted to help a)

No one

b) Consumers

c) Producers

d) Government

ANS: C

32) Rent controls

a) Is an example of price floors

b) Is an example of price ceilings

c) Destroy wealth by preventing the movement of apartments to higher-valued use. d) Both b and c

ANS: D

33) Price gouging

a) Outlaw trade at prices above a certain price level

b) Outlaw trade at prices below a certain price level

c) Is an act of charging a high price to take advantage of shortages created by natural disasters d)

None of the above

ANS: C

34) An individual's value for a good or service is the

a) The amount of money he or she used to pay for a good

b) The amount of money he or she is willing to pay for it

c) The amount of money he or she has to spend on goods

d) None of the above

ANS: B

35) The difference between Capitalism and Socialism is that

a) Capitalism is concerned more about how to slice up the "pie"

b) Socialism is concerned with making the "pie" as large as possible

c) Capitalism is concerned with making the "pie" as large as possible

d) Both a and B

ANS: C