Chapter 6 Supply, Demand and Government Policies Practice Test

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

____ 1. Price controls
   a. always produce an equitable outcome.
   b. always produce an efficient outcome.
   c. can generate inequities of their own.
   d. produce revenue for the government.

____ 2. A legal maximum price at which a good can be sold is a
   a. price floor.
   b. price stabilization.
   c. price support.
   d. price ceiling.

Graph 6-2

____ 3. According to Graph 6-2, a binding price ceiling would exist at a price of
   a. $8.00.
   b. $6.00.
   c. $5.00.
   d. none of the above.

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

5. Long lines at gas stations in the U.S. in the 1970s were primarily a result of  
   a. the fact that OPEC raised the price of crude oil in world markets.  
   b. the fact that U.S. gasoline producers raised the price of gasoline.  
   c. the fact that the U.S. government had imposed a price ceiling on gasoline.  
   d. the fact that Americans typically commute long distances.

6. Which of the following is NOT a mechanism of rationing used by landlords in cities with rent control?  
   a. waiting lists  
   b. race  
   c. price  
   d. bribes

7. A price floor is not binding if  
   a. the price floor is higher than the equilibrium market price.  
   b. the price floor is lower than the equilibrium market price.  
   c. people are willing to buy as much when the price floor is imposed as they did before.  
   d. the government sets it.

Graph 6-6
8. According to Graph 6-6, in panel (b), at the actual price there will be
   a. a shortage of wheat.
   b. equilibrium in the market.
   c. a surplus of wheat.
   d. an excess demand for wheat.

9. The minimum wage has its greatest impact on
   a. the market for female labor.
   b. the market for white workers.
   c. the market for black workers.
   d. the market for teenage labor.

10. Which of the following is NOT a function of prices in a market system?
    a. Prices have the crucial job of balancing supply and demand.
    b. Prices send signals to buyers and sellers to help them make rational economic decisions.
    c. Prices coordinate economic activity.
    d. Prices make an equitable distribution of goods and services among consumers possible.

Graph 6-7
11. According to Graph 6-7, the price buyers will pay after the tax is imposed is
   a. $8.00.
   b. $6.00.
   c. $5.00.
   d. $3.50.

12. FICA is an example of
   a. a payroll tax.
   b. a sales tax.
   c. a farm subsidy.
   d. fire insurance.

Graph 6-10

13. In Graph 6-10, the per unit burden of the tax on buyers is
    a. $P_2 - P_0$.
    b. $P_2 - P_1$.
    c. $P_1 - P_0$.
    d. $Q_1 - Q_0$.

14. In Graph 6-10, the per unit burden of the tax on the sellers is
    a. $P_2 - P_0$.
    b. $P_2 - P_1$.
    c. $P_1 - P_0$.
    d. $Q_1 - Q_0$. 