Midterm Exam

True-False Questions: Write down your answers with T (True) or F (False)

1. Demand curves slope upward to the right and supply curves slope downward to the left.
2. Both the equilibrium price and quantity exchanged must decrease when demand and supply both decrease.
3. Education is a “free” food because the resources used in obtaining it are not scarce.
4. If the value of a unit of educational services is worth less to society than it costs to produce it, then output should be increased.
5. A free rider is someone who receives the benefits of a good or service without paying the costs of production.
6. Governments can solve the “free rider” problem by requiring all who receive benefits of a collective consumed good or service to pay appropriate taxes for it.
7. If the marginal benefit of a dollar’s worth of police activities is less than the marginal benefit of a dollar’s worth of court activities, then society would be better off spending more on police and less on courts.
8. The optimal level of crime prevention activity is found by setting total social benefits equal to total social costs.
9. Automobile owners can dump combustion gases into the air without charge because of the collectively consumed nature of the air.
10. As the level of an air pollution control activity increases, marginal social costs and marginal social benefits both increase.
11. In a pollution rights market, firms buy and sell government issued licenses to pollute the environment.
12. A person is discriminated against when that person is treated differently on grounds other than individual merit.
13. Discrimination exists in a labor market when persons with equal productivity are paid the same wage.
14. If blacks and whites with the same productivity are paid equal wages that are below their productivity then both groups are exploited but not discriminated against.
15. It is not possible to eliminate absolute poverty without an equal distribution of income.
16. As a percentage, more female headed households live in poverty than male headed households.
17. Minimum wage laws in labor markets can lead to surpluses.
18. Cartel agreements between professional sports teams determine how league revenues are distributed between teams.
19. A monopsony exists when there are many buyers in a market.
20. A monopsony will hire additional workers if MRP is less than MCL.
Multiple Choice Questions: Select the one best answer

1. A change in the price of a product will result in:
   a) a shift in the demand curve for the product.
   b) a change in demand for the product.
   c) a change in quantity demanded for the product.
   d) the formation of a new demand curve for the product.

2. Which of the following would cause the supply curve to shift?
   a) a change in price.
   b) changes in the cost of production.
   c) a shift in the demand curve.
   d) an increase in the number of buyers in the market.

3. The educational services produced by institutions of higher education include:
   a) direct consumption benefits.
   b) investment in human capital.
   c) social spillover benefits.
   d) all of the above.

4. Social spillover benefits of education may include:
   a) an increase in the student’s lifetime earning power.
   b) more intelligent participation on the part of voters in the democratic process.
   c) greater contributions of citizens to the life of the community.
   d) all of the above.
   e) only (b) and (c) above.

5. The largest cost component of higher education is:
   a) foregone income.
   b) tuition and fees.
   c) government appropriations and explicit costs.
   d) none of the above.

6. Crime prevention activities:
   a) are an individually consumed service.
   b) are a collectively consumed service.
   c) can be provided in the optimum amount by competitive private enterprises through the market-price system.
   d) yield benefits primarily to the individuals who consume them.

7. Assume one unit of crime prevention activity would yield benefits to the community of $300,000 and cost $120,000. The community:
   a) would be better off not providing one unit of crime prevention.
   b) would provide at least one unit of crime prevention since the net benefits are $180,000.
   c) would provide two units of crime prevention if the total net benefits are less than $180,000.
d) could provide four units of crime prevention if the marginal cost of the fourth unit exceeds its marginal benefits.

8. Which of the following would most likely represent the market equilibrium price and quantity after the legalization of marijuana?
   a) higher price, lower quantity.
   b) higher price, higher quantity.
   c) higher lower price, lower quantity.
   d) lower price, higher quantity.
   e) insufficient information to determine.

9. Taxing a firm for pollution it emits into the environment will have what effect on the market price and quantity of its product?
   a) price will increase, quantity will decrease.
   b) price will decrease, quantity will decrease.
   c) price will increase, quantity will increase.
   d) price will decrease, quantity will increase.
   e) it depends on the amount of the tax.

10. As the level of pollution control increases, marginal benefits:
   a) decline because total pollution is smaller and an additional unit of pollution control has less value.
   b) decline because society values the additional unit of pollution more than the last unit.
   c) rise because marginal costs increase as the level of pollution control increases.
   d) rise because each additional unit of pollution control has more value.

11. Which of the following is a problem raised by the use of direct controls to limit pollution?
   a) determining the efficient level of pollution.
   b) allocating the efficient level of pollution among polluters.
   c) enforcing the established standards.
   d) a lack of incentives not to pollute.
   e) all of the above.

12. Market discrimination exists because some buyers and sellers:
   a) with monopoly power have the ability and desire to discriminate.
   b) exploitation.
   c) the white male worker is probably the most underpaid the three workers.
   d) the white female worker is probably overpaid in relation to the other two workers.

13. Three workers – a white female worker, a white male worker, and a black male worker – are paid “equal pay for equal work.” All three workers are paid wages below their marginal revenue productivity. This indicates:
   a) discrimination.
   b) exploitation.
c) the white male worker is probably the most underpaid the three workers.
d) the white female worker is probably overpaid in relation to the other two workers.

14. Market discrimination exist in the form of:
a) wage discrimination.
b) employment discrimination.
c) occupational discrimination.
d) all of the above.

15. The incidence of poverty is higher for:
a) families headed by women.
b) white families.
c) nonfarm families.
d) none of the above.

16. Income equality:
a) is shown by a 45-degree line on the graph of a Lorenz curve.
b) increased during the 1930s and the years of World War II.
c) among families means that any given percent of families receive an equal percent of family income.
d) all of the above.

17. Most income inequality has been found to be due to differences in:
a) capacity utilization rates among people.
b) earnings capacity among people.
c) actual earnings relative to capacity earnings among people.
d) none of the above.

18. A cartel can be described as a:
a) competitively shared market.
b) purely competitive monopoly.
c) jointly shared monopoly.
d) disorganized monopoly market.

19. The marginal revenue product (MRP) of labor represents the:
a) supply of workers.
b) cost of hiring additional workers.
c) demand for workers.
d) revenue generated by selling additional output.

20. A monopsony will continue to hire workers up to the point where:
a) $S = D$.
b) $MRP > MCL$.
c) $MRP < MCL$.
d) $MRP = MCL$. 