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9. For most people, baking cinnamon rolls generates _____ externality, and burning tires generates _______ externality.

A. A positive; a negative
B. A negative; a positive.
C. A positive, no
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Your economics professor has announced the following grading policy: For each exam, the highest score in the class will be entered as a 100%; all other scores will be entered as the percent of that top score. For example, if the highest test score is a 50 out of 100, it will be counted as a perfect paper, and exams with a score of 40 out of 100 will be entered as an 80%. The final grade for the course will be determined using these adjusted percentages, with 90% and above an A, 80% and above a B, 70% and above a C and below 70% not passing.

10. The students all get together and decide not to study for the next exam because if nobody does well, they will all do okay. This plan

A. requires everyone to follow their dominant strategy.
B. will be stable because there are no incentives to deviate.
C. will be unstable because there is an incentive to break the agreement.
D. is a commitment device, and thus stable.
E. results in a Nash Equilibrium.
11. To say that a particular good is nonrival means that

A. it has no substitutes.
B. consumers can enjoy it without paying for it.
C. consumption of the good by one person does not diminish the availability of the good to others.
D. it is the best good, i.e., it has no rivals.
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12. If it is impossible or highly costly to prevent consumers from consuming a good when they have not paid for it, the good is a(n) __________ good.

A. nonexcludable
B. pure public
C. private
D. nonrival
E. common

13. When dealing with pure public goods,

A. the government must always provide them.
B. private firms will always provide them.
C. the government frequently provides them although private firms provide some.
D. the government must legally compel private firms to provide them.
E. private firms provide nearly all of them and the government provides the few remaining ones.
The 20 residents of the village of Towneburg are considering hosting a fireworks show next summer. The total cost of the show is estimated to be \$1,000 + \$10 per unit. Each resident's demand for fireworks is identical: \( P = 50 - 2 \times \text{units} \) as shown below:

14. Cheap Charlie is one of Towneburg's 20 residents. While Charlie enjoys fireworks as much as the next Towneburger, when the fireworks fund-raising campaign kicks off, he claims to hate them. Cheap Charlie is trying to

A. free ride
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15. For many pure public goods like fireworks displays, weather forecasts, and television broadcasts the marginal cost of serving one more consumer is _____, and therefore the optimal quantity occurs when ________.

A. zero; provision is infinite
B. determined by average cost rather than marginal cost; price equals average cost.
C. greater than average cost; government provides the good.
D. zero; marginal benefit equals zero.
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16. The major prediction of the lemons model is that

A. the presence of asymmetric information reduces the average quality of goods for sale.
B. people will generally choose the 'low hanging fruit'.
C. if one sells a used car in good condition, one will not be penalized.
D. if one buys a used car, one can expect it to be in better than average condition.
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A. one should never buy a used car.
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Vinnie is looking for an apartment in Dayton, Ohio. In Dayton, 75% of the two bedroom, one bath apartments are $800 a month and 25% are $600. The marginal cost of his search is $15 per search, i.e., the marginal cost of looking at the first apartment is $15, the marginal cost of looking at the second apartment is $30, and so on.

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D. independent of the expenditure to be made.
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19. A market equilibrium is only efficient when

A. buyers and sellers each earn equal surplus from the transaction.
B. consumer surplus and producer surplus are both zero.
C. All relevant costs, including those imposed on others, are accounted for.
D. Income is distributed equitably.
E. Firms are earning positive profits.
20. Suppose a perfectly competitive industry has an external cost (e.g., noise pollution). The market outcome will be ______ because the equilibrium price is ______.

A. inefficient; greater than the true cost
B. efficient; correct
C. inefficient; too high
D. efficient; too low
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21. If demand is perfectly price inelastic,

A. the burden of a tax is shared equally.
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A. $16  
B. $20.  
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23. The value of marginal product

A. equals marginal product.  
B. describes the costs of hiring an extra worker.  
C. equals marginal product divided by net price.  
D. equals average product times the wage rate.  
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24. In a competitive labor market, it is observed that the equilibrium wage rate and employment level have both risen. One can infer that

A. the supply of labor has increased.  
B. the demand for labor has fallen.  
C. the price firms receive for their output has declined.  
D. the supply of labor has decreased.  
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Suppose that this graph describes the current labor market for high school teachers:
25. If wages are currently $W^*$,

A. there will be a shortage of certified teachers.
B. there will be a surplus of certified teachers.
C. the market is in equilibrium: neither a shortage nor a surplus exists.
D. more teachers will be attracted into this profession.
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26. A minimum wage law that prohibits employers from paying workers less than a specified hourly wage that is above the equilibrium wage

A. results in a labor surplus.
B. results in a labor shortage.
C. is an example of a price ceiling.
D. resets the legal wage rate below the equilibrium.
E. is the most efficient way to assist the working poor.

27. Arguments in favor of programs that tax income to redistribute wealth include:

A. these programs provide a financial incentive to work harder.
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A. concern for the welfare of their fellows.
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A. marginal revenue is $5 for both firms.
B. marginal revenue is $5 for the competitive firm and less than $5 for the monopolist.
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D. the competitive firm is charging too much and the monopolist too little.
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A. earns an excessive profit.
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33. Assuming consumers eat either rice or pasta for dinner every night. If the price of rice increases, in the pasta market one would expect to see

A. increase in the quantity of pasta demanded.
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A. marginal utility.
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Final Examination Key

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