

1. Equivalent variation equals to the amount we would need to

- A give to the consumer after an increase in price to keep her as well off as she was before the price change?
- B take from the consumer before an increase in price to keep her as well off as she would be after the price change?

2. Gross consumers' surplus is the minimum amount we would need to pay to a consumer if we wanted her to stop buying certain product.

- A True
- B False

3. If an increase in price by 10% leads to a fall in the quantity demanded by 5%, we have

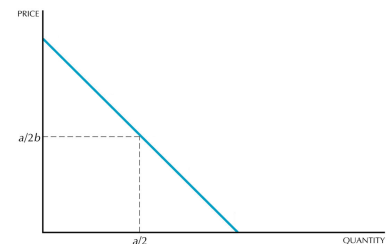
- A an elastic demand.
- B an inelastic demand.
- C a unit elastic demand.

4. Suppose marginal revenue is positive, then the demand is always

- A elastic.
- B inelastic.

5. The linear demand function is a form of $q = a - bp$. What is the absolute value of the price elasticity of demand at the quantity $a/4$?

- A 0
- B between 0 and 1
- C 1
- D more than 1



6. A gallon equals to 1/8 of one bushel. If the price elasticity of peas measured in bushels equals to -0.4, what is the price elasticity of peas measured in gallons?

- A -0.05
- B -0.4
- C -1.6
- D -3.2
- E -1

7. Which of the following demand functions has a constant elasticity of demand?

- A $q = 1/p$
- B $q = 5 - p^2$
- C $q = 5 - p$
- D $q = 5 - p/5$

8. Suppose a government levies a quantity tax of \$3 on a good, then the demand price of the good increases always by exactly \$3.

- A True
- B False

9. Suppose a government levies a quantity tax of \$8 on a good, then the supply price never increases.

- A True
- B False

10. There is a supply curve $S_1 = 2p_1$ in market 1 and a supply curve $S_2 = 5p_2$ in market 2. The demand in both markets is identical. Suppose the same tax is imposed in both markets. Which of the following statements is true?

- A The resulting deadweight loss is higher in market 1 than in market 2.
- B The resulting deadweight loss is higher in market 2 than in market 1.
- C The resulting deadweight losses are the same in both markets.

11. If the supply curve is vertical and a government imposes a tax of \$10 on a certain good,

- A the demand price remains the same.
- B the supply price increases by \$10.
- C the supply price remains the same.
- D the demand price increases by \$10.

12. Taxes always create deadweight loss.

- A True
- B False