

Econ 101, Section 21, S10, Schroeter
Exam #3, Special code = 2

Choose the single best answer for each question. Do all of your scratch work in the margins or on the back of the last page.

1. The National Association of Bowling Ball Manufacturers (NABBM) lobbies the U.S. government for a tariff on imported bowling balls. Their argument is that foreign governments subsidize their bowling ball manufacturing companies with large tax breaks. This argument for restricting trade is an example of
 - a. the protection-as-a-bargaining-chip argument.
 - *. the unfair competition argument.
 - c. the offshore outsourcing argument.
 - d. the increased-variety-of-goods argument.

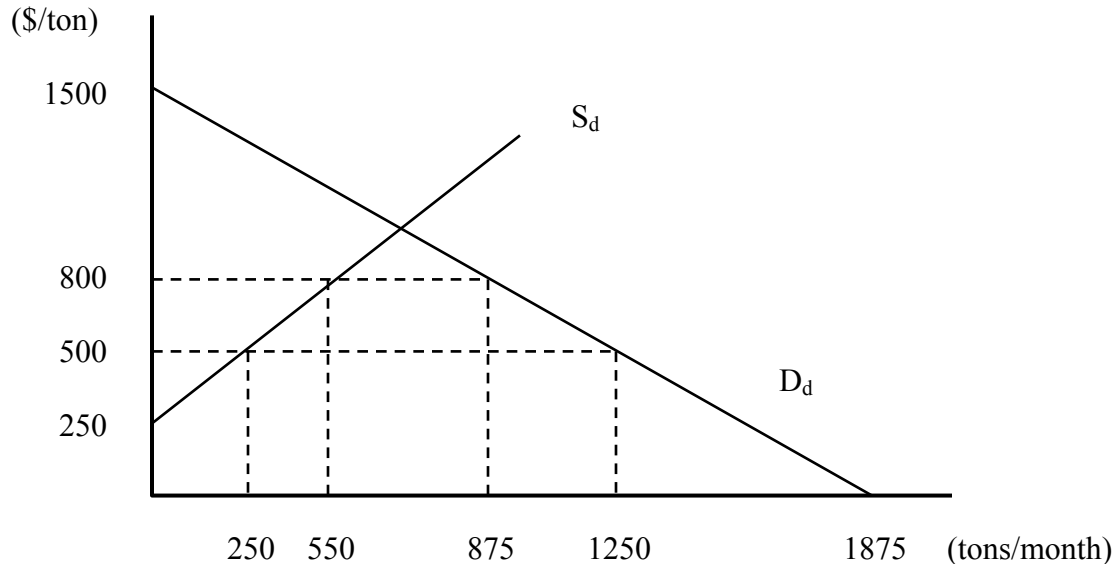
2. For a country that imports steel, the imposition of a tariff on steel will
 - a. increase the surplus of domestic steel consumers.
 - *. increase the surplus of domestic steel producers.
 - c. both *a* and *b*.
 - d. None of the above.

3. Kazanistan is a small country with a free trade policy. As a result, widgets trade at the world market price of \$10 each and, at that price, Kazanistan currently imports 500 widgets/month. If the government of Kazanistan were to impose a tariff of \$2/widget, the tariff revenue it would collect would be
 - a. \$1000/month.
 - *. less than \$1000/month.
 - c. greater than \$1000/month.
 - d. Any one of the above is possible, depending on the elasticities of domestic supply and demand of widgets.

4. When a country repeals its ban on international trade in cement, it becomes an importer of cement. As a result of the repeal of the trade ban, the country's domestic producers of cement _____ and the country's domestic consumers of cement _____.
 - *. lose; gain.
 - b. lose; lose.
 - c. gain; gain.
 - d. gain; lose.

5. When a country repeals its ban on international trade in textiles, it becomes an exporter of textiles. As a result of the repeal of the trade ban, the price of textiles in the domestic market _____ and domestic consumption of textiles _____.
 - a. increases; increases.
 - b. decreases; decreases.
 - *. increases; decreases.
 - d. decreases; increases.

Questions 6, 7, and 8 refer to the following figure. It depicts the domestic demand (D_d) and domestic supply (S_d) of sugar, a homogeneous commodity, in Algernon, a small country.



6. If the world market price is \$500/ton, in a free trade situation, Algernon's domestic consumer surplus will be

- *. \$625,000/month.
- b. \$500,000/month.
- c. \$306,250/month.
- d. \$125,000/month.

7. Starting from a free trade situation with a world market price of \$500/ton, the government of Algernon imposes a \$300/ton tariff on sugar imports. With the tariff in place, Algernon will import

- a. 550 tons of sugar/month.
- b. 375 tons of sugar/month.
- *. 325 tons of sugar/month.
- d. 250 tons of sugar/month.

8. Starting from a free trade situation with a world market price of \$500/ton, the government of Algernon imposes a \$300/ton tariff on sugar imports. The deadweight loss that results from this tariff is

- a. \$112,500/month.
- *. \$101,250/month.
- c. \$97,500/month.
- d. \$88,750/month.

9. Which of the following is an example of a positive externality?

- *. A well-maintained yard increases the value of adjacent properties.
- b. Regular oil changes prolong the life of my car's engine.
- c. Both *a* and *b*.
- d. None of the above.

10. The impact of one person's actions on the well-being of a bystander is called

- a. a corrective tax.
- *. an externality.
- c. a deadweight loss.
- d. a default premium.

Questions 11 and 12 are based on lecture's factory/town/river example of an externality problem. The details are exactly as presented in lecture, except for the values, to each party, of their intended uses of the resource (the river). In answering questions 12 and 13, assume that the factory values the river's waste-disposal capability at \$250,000, and the town values an unpolluted river as a drinking water source at \$225,000.

11. Suppose that the two parties (factory and town) can bargain without cost over the use of the river. Regarding the use of the river, what will be the outcome?

- *. The factory will pollute the river.
- b. The factory will refrain from polluting the river.
- c. The outcome depends on which party has property rights over the river.
- d. The outcome depends on how many people live in the town.

12. Suppose that bargaining between the two parties over the use of the river would incur a transactions cost of \$50,000. Regarding the use of the river, what will be the outcome?

- a. The factory will pollute the river.
- b. The factory will refrain from polluting the river.
- *. The outcome depends on which party has property rights over the river.
- d. The outcome depends on how many people live in the town.

13. If the market for a good is competitive, but the marginal social cost curve is above the supply curve,

- a. a positive externality exists in the market.
- *. a negative externality exists in the market.
- c. the government has imposed a tax on production of the good.
- d. the government is subsidizing production of the good.

14. Which of the following approaches does the U.S. Environmental Protection Agency use to regulate acid-rain-causing SO₂ emissions from electric power plants?

- a. A tax on electric power utilities based on the volume of their SO₂ emissions.
- *. A cap-and-trade program in "sulfur allowances."
- c. A system of fixed limits on SO₂ emissions for each electric power plant.
- d. A program of tax breaks for the companies that do the most to reduce SO₂ emissions.

Questions 15 and 16 refer to the following information and table. Three firms (A, B, and C) are currently responsible for 4 units of pollution each (for a total of 12 units of pollution). The following table shows the marginal abatement costs for each of the three firms. For example, it would cost firm A \$20 to reduce its pollution by one unit, an additional \$26 to reduce its pollution by a second unit, an additional \$34 to reduce its pollution by a third unit, etc.

Unit of pollution to be eliminated	Firm		
	A	B	C
First unit	20	18	27
Second unit	26	23	33
Third unit	34	31	40
Fourth unit	42	39	48

15. Suppose that the government imposes a pollution tax of \$35/unit. Firms would then have to pay a tax of \$35 for each unit of pollution they created. How many units of pollution would be eliminated by the three firms combined?

- a. 10.
- b. 9.
- *. 8.
- d. None of the above.

16. Suppose that the government issued three pollution permits to each firm, for a total of nine, but allowed the firms to trade permits. Firms are only allowed to pollute up to their holdings of permits; one unit of pollution per permit. Which of the following trades might occur?

- a. Firm B buys one permit from Firm A for a price between \$18 and \$26.
- b. Firm C buys one permit from Firm B for a price between \$39 and \$40.
- *. Firm C buys one permit from Firm B for a price between \$23 and \$27.
- d. Firm B buys one permit from Firm A for a price between \$31 and \$42.

17. An uncongested toll-road is

- a. excludable and rival in consumption.
- b. non-excludable and non-rival in consumption.
- *. excludable and non-rival in consumption.
- d. non-excludable and rival in consumption.

18. Public goods and private goods have what feature in common? They are both

- a. excludable.
- b. non-excludable.
- c. rival in consumption.
- *. None of the above.

19. To achieve the optimal provision of public goods, the
- a. market should be allowed to arrive at an equilibrium without government intervention.
 - b. government must tax producers of public goods.
 - c. government must impose a tariff on the importation of public goods.
 - *. government must either provide the public goods or subsidize their production.

20. Tom is a non-union employee at Acme Widgets, Inc. The majority of the company's employees are unionized. The union has negotiated a very generous benefits package for the company's employees. Even though Tom is not a union member and does not pay union dues, he still receives all of the benefits that the union has negotiated. Tom's behavior is an example of

- a. rivalry in consumption.
- *. free riding.
- c. the tragedy of the commons.
- d. privatization.

21. A person's "tax liability" refers to

- a. the percentage of income that the person must pay in taxes.
- b. the amount of tax the government is required to refund to the person.
- c. deductions that the person is allowed to claim in the calculation of taxable income.
- *. the amount of tax a person owes to the government.

22. Which of the following taxes are used by *state and local* governments as a means of raising revenue?

- a. sales taxes.
- b. individual income taxes.
- c. property taxes.
- *. All of the above.

23. A taxpayer faces the following "flat tax" on income:

The first \$20,000 of annual income is tax free.

A single marginal tax rate of 19% applies to all income over \$20,000 annually.

At what income level would the taxpayer's average tax rate be 9%?

- a. \$45,000 per year.
- *. \$38,000 per year.
- c. \$29,000 per year.
- d. \$9,000 per year.

24. When, in a given year, the government's total receipts fall short of its total spending, the government is said to have a budget

- *. deficit.
- b. inversion.
- c. surplus.
- d. variance.

25. The "FairTax" proposal advocated by Mike Huckabee and others is

- a. a payroll tax.
- *. a national retail sales tax.
- c. an income tax with a single marginal rate that applies to all income levels.
- d. an excise tax on luxury goods.

26. A 5% sales tax that applies to *all* expenditures will be regressive if low-income households spend

- a. the same proportion of their income as high-income households.
- *. a higher proportion of their income than high-income households.
- c. a lower proportion of their income than high-income households.
- d. All of the above. (A 5% sales tax on all expenditures will be regressive in any case.)

27. Consider a hypothetical income tax structure described by the following schedule of marginal rates.

On taxable income . . .	the marginal tax rate is . . .
Up to \$7,000	10%
From \$7,000 to \$30,000	15%
From \$30,000 to \$76,000	25%
Over \$76,000	30%

If Alexis has \$85,000 in taxable income, how much does she owe in taxes?

- a. \$25,500.
- b. \$23,650.
- c. \$21,700.
- *. \$18,350.

(continued on next page)

Questions 28, 29, and 30 refer to Schedule Y-1 from the 2009 Instruction booklet for federal individual income tax form 1040. Harold and Maude, a married couple, used the "married, filing jointly" tax status to file their 2009 federal income tax returns. They reported taxable income of \$132,850 on total income of \$158,675.

Schedule Y-1. Use if your filing status is married, filing jointly.

If your taxable income is over	but not over	your tax is	of the amount over
\$0	\$16,700	----- 10%	\$0
16,700	67,900	\$1,670 + 15%	16,700
67,900	137,050	9,350 + 25%	67,900
137,050	208,850	26,637.50 + 28%	137,050
208,850	372,950	46,741.50 + 33%	208,850
372,950	-----	100,894.50 + 35%	372,950

28. Based on their reported taxable income, Harold and Maude's marginal tax rate is

- a. 33%.
- b. 28%.
- *. 25%.
- d. 15%.

29. Based on their reported taxable income, Harold and Maude's federal income tax for 2009 is

- a. \$32,692.50.
- *. \$25,587.50.
- c. \$19,927.50.
- d. \$16,237.50.

30. Harold and Maude's 2009 tax return is audited. As a result of the audit, the IRS disallows \$2500 of deductions that they had claimed in their calculation of taxable income of \$132,850. What effect will this IRS ruling have on their income tax for 2009? Compared to the tax calculated for reported income of \$132,850, their *actual* taxes will be

- a. \$2500 lower.
- b. \$2500 higher.
- c. \$800 higher.
- *. None of the above.