COMM 220: Ch 17 and 18 Multiple Choice Questions

1) When sellers have more information about products than buyers do, we would expect
   A) sellers to get higher prices for their goods than they could otherwise.
   B) buyers to pay lower prices for goods than they would otherwise.
   C) high-quality goods to drive low-quality goods out of the market.
   D) low-quality goods to drive high-quality goods out of the market.

2) To find the social marginal benefit of public goods, one needs to
   A) sum the consumers’ demand curves vertically.
   B) sum the consumers’ demand curves horizontally.
   C) sum the marginal private benefit and the marginal external benefit for each unit.
   D) sum the marginal private cost and the marginal external cost for each unit.
   E) subtract the individual portion of the tax burden necessary for the government to provide the good from the demand curve of each consumer who desires the good.

3) Because trucking as an industry involves the generation of pollutants in engine exhaust,
   A) the supply curve of trucking services overstates the true cost of providing those services.
   B) the supply curve of trucking services understates the true cost of providing those services.
   C) the demand curve for trucking services overstates the true benefit of providing those services.
   D) the demand curve for trucking services understates the true benefit of providing those services.
   E) the market for trucking services will always be away from equilibrium by an amount equal to the value of the externality.

![Figure 18.1](image-url)
All producers in the corbomite industry dump wastes in the river in the production of their output.

4) Given the information in Figure 18.1, the efficient output in the corbomite industry is:
   A) 0.   B) Q0.   C) Q1.   D) Q2.

5) Which of the following job market signals are less costly for high-quality workers to send than low-quality workers?
   A) Spending long hours at the office
   B) Sending emails to coworkers and supervisors at night and on weekends
   C) Leaving voice-mail message for colleagues before or after regular business hours
   D) all of the above

6) The provision of an education in public school is
   A) exclusive and rival.
   B) exclusive and non-rival.
   C) nonexclusive and non-rival.
   D) nonexclusive and rival.
   E) a public good, regardless of exclusivity and rivalness.

7) A positive externality is shown by a marginal social benefit (MSB) curve that is
   A) above and to the right of the demand curve for the good that generates it.
   B) below and to the left of the demand curve for the good that generates it.
   C) above and to the left of the supply curve for the good that generates it.
   D) below and to the right of the supply curve for the good that generates it.
   E) positively related to both the supply curve and the demand curve for the good that generates it.

8) The optimum level of pollution emissions
   A) is zero.
   B) occurs where the marginal external benefit is zero.
   C) occurs where no damage to the environment is being done.
   D) occurs where the marginal external benefit equals the marginal external cost.
   E) occurs where the marginal external cost equals the marginal cost of abatement.

9) Which of the following is a negative externality connected to automobile transportation?
   A) Driving faster than the 65 mph speed limit is not allowed, even though individuals are able to do it, and many want to.
   B) In an accident, a person who chooses not to wear a seat belt becomes an object moving around the inside of the car, possibly hitting other, belted-in, passengers with lethal force.
C) Gasoline is taxed on a per-gallon basis.
D) Gasoline is imported, and thus increases the trade deficit.
E) While stuck in traffic, you have a chance to listen to your favorite CD, which you haven't had the time to do in other places.

10) The problem of adverse selection in insurance results in a situation in which

A) people choose inappropriate or inadequate coverage because they do not understand the complex information in the policies.
B) people choose too much coverage because they do not understand the complex information in the policies.
C) people choose too little coverage because they do not understand the complex information in the policies.
D) unhealthy people become more likely to buy insurance than healthy people, which drives premiums up, which drives even more healthy people away from the market.
E) healthy people become more likely to buy insurance than unhealthy people, which drives premiums up, which drives even more unhealthy people away from the market even though they are the ones who need it most.

11) Which of the following is TRUE about producers' willingness to offer warranties on products?

A) Producers are equally likely to offer warranties on high-quality and low-quality goods.
B) Producers are more likely to offer warranties on low-quality goods, because without the signal that the warranty provides, the low-quality good wouldn't sell.
C) Producers are more likely to offer warranties on high-quality goods, because the expected cost of repairs is lower for those goods.
D) Producers have an incentive to deal with third-party companies to provide the warranties, so that an "impartial" view of the product is given to the consumer.
E) Producers will not offer warranties in any market that suffers from asymmetric information.

12) The difference between the marginal social cost and the private cost of a common property resource represents:

A) the social discount rate.
B) a deadweight loss.
C) is generally negative because the people who use the resources assign higher value to them than other members of society.
D) the opportunity cost of reducing the resource by one unit for other members of society.

13) The marginal benefit and marginal private cost curves for aphrodisiacs are given as follows:

\[ MB = 200 - Q \]
\[ MPC = Q \]
In addition to private costs, there is a marginal external cost of $10 per unit of output. What is the efficient level of output?

A) 0
B) 55
C) 95
D) 100
E) none of the above

14) When asymmetric information problems drive high quality products from a market, we refer to this situation as:

A) adverse selection.
B) moral hazard.
C) a lemons problem.
D) A and C are correct.
E) B and C are correct.

15) A lighthouse is a public good because it doesn’t cost any more to light the way for 105 ships than it does to light the way for 104 ships, but for no other reason.

A) because it doesn’t cost any more to light the way for 105 ships than it does to light the way for 104 ships, but for no other reason.
B) because there is no way to prevent those who haven’t contributed to the lighthouse from seeing better because of it, but for no other reason.
C) because the government produces it, and for no other reason.
D) for the reasons in A and B together.
E) for the reasons in A, B, and C together.

16) Constructing plastic containers produces air pollutants. Therefore, in the market for plastic containers,

A) the marginal social cost curve is above and to the right of the demand curve.
B) the marginal social cost curve is below and to the left of the demand curve.
C) the marginal social cost curve is above and to the left of the supply curve.
D) the marginal social cost curve is below and to the right of the supply curve.
E)
there is a gap between quantity supplied and quantity demanded in equilibrium.

17) If the MSB/MCA graph indicates that an emissions fee of $10 per unit would lead to the optimum level of emissions, but the government set a fee of $5 per unit, emissions would
   A) not be reduced at all.
   B) not occur at all.
   C) be above the optimum level, but curtailed somewhat from what they would have been with no fee at all.
   D) be above the optimum level by 50%.
   E) be below the optimum level by 50%.

18) The government provides public education because
   A) public education is a public good.
   B) public education is non-rival and nonexclusive.
   C) private education is rival and exclusive.
   D) public education combats the negative externalities of private education.
   E) public education provides positive externalities.

19) John is a 55-year-old male smoker, about 50 pounds overweight, who has high blood sugar and drinks to excess a couple of times each month. Because of adverse selection in health insurance,
   A) John is less likely to buy health insurance than the average person, because the average person’s policy premiums will be based on his risk, not the average risk.
   B) John is more likely to buy health insurance than the average person, because his policy premiums will be based on the average risk, not his personal risk.
   C) when John gets health insurance, he will be less likely to take care of himself.
   D) when John gets health insurance, he will be more likely to take care of himself.
   E) if John doesn’t have health insurance already, he will not be able to get it.

20) A warranty is most valuable as a signaling device when
   A) the buyer has much more information about the product than the seller does.
   B) the seller has much more information about the product than the buyer does.
   C) the buyer has much more information about his or her own preferences than the seller does.
   D) neither the buyer nor the seller has good information about the product.
   E) neither the buyer nor the seller has good information about consumer preferences.

21) How do online auction sites like Ebay attempt to overcome the asymmetric information problems associated with goods that the buyer cannot personally inspect before purchase?
   A) The online auction firm only allows high-quality merchandise to
be sold at their site.
B) The previous performance (reputations) of the buyer and seller are posted for public review.
C) Buyers can take receipt of any goods before they have to pay the seller.
D) all of the above

22) Julia is a 28-year-old nonsmoking, non-drinking female of normal weight. Because of adverse selection in health insurance,
A) She will be charged less for her premiums than people who are higher risks.
B) She is less likely to buy health insurance than the average person, because policy premiums are based on expected medical expenditures of people who are less healthy than she is.
C) When she get health insurance, she will be less likely to take care of herself.
D) She must get health insurance early in life, and is likely to lose health insurance if she smokes, drinks to excess, or gains weight.
E) She is more likely than the average person to buy health insurance, because she is more likely to be offered it.

23) The problem of adverse selection in health insurance leads to a situation in which
A) health insurance covers inappropriate items for the population it serves.
B) overinsurance of the premium-paying population occurs.
C) underinsurance of the premium-paying population occurs.
D) the percentage of the premium-paying population that is healthy rises, squeezing unhealthy individuals out of the market.
E) the percentage of the premium-paying population that is unhealthy rises, squeezing healthy individuals out of the market.

24) Used cars sell for much less than new cars because
A) of imperfect competition in the automobile industry.
B) buyers know much more about the quality of used cars than sellers do.
C) sellers know much more about the quality of used cars than buyers do.
D) physical depreciation of used cars is very high.
E) of licensing arrangements by the government.

25) Which of the following represent examples of adverse selection?
A) Unhealthy people are more likely to want health insurance.
B) Careless drivers purchasing extra auto insurance.
C) Risk averse individuals choosing to buy extra insurance.
D) all of the above
E) A and B only
All producers in the corbomite industry dump wastes in the river in the production of their output.

26) Given the information in Figure 18.1, the competitive output in the corbomite industry is:
   A) Q0.
   B) Q1.
   C) Q2.
   D) any level as long as price is P0.
1) D
2) A
3) B
4) D
5) A
6) A
7) A
8) E
9) B
10) D
11) C
12) D
13) C
14) D
15) D
16) C
17) C
18) E
19) B
20) B
21) B
22) B
23) E
24) C
25) E
26) B