Name: _____

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AP Microeconomics — Practice Exam

Instructions: Section I style multiple choice (20 questions, five answer choices each, 1 point each) followed by one free-response question (10 points), 35 minutes in total. A four-function calculator is allowed, as on the real exam, but none is needed. Wrong multiple-choice answers are not penalized. On the free-response question, show your work for every calculation and draw graphs large, labeling all axes, curves, prices and quantities.

Time Limit: 35 minutes

Multiple Choice (20 questions)

[1 point] 1. Three buyers make up the whole weekly market for fresh eggs in the village of Wrenfield: a diner, a bakery and a school kitchen. The table shows how many dozen eggs each buyer would buy at each price, and the total quantity the local farms would supply. The equilibrium price and the number of dozen eggs sold per week are:

Price (dollars per dozen)	Diner	Bakery	School kitchen	Farms supply
5	20	35	15	200
4	30	50	20	170
3	40	70	30	140
2	55	95	40	110

A. 4 dollars and 100 dozen

B. 3 dollars and 140 dozen

C. 3 dollars and 70 dozen

D. 4 dollars and 170 dozen

E. 2 dollars and 190 dozen

[1 point] 2. Which of the following would shift the demand curve for tennis rackets to the right? I. The price of tennis balls, which players use with their rackets, falls. II. The price of tennis rackets falls. III. Buyers come to expect that racket prices will rise next month.

A. I only

B. II only

C. I and II only

D. I and III only

E. I, II and III

[1 point] 3. Farmers in the Norvale valley can plant their fields with either corn or soybeans. The price of soybeans rises sharply, and nothing else changes. In the market for corn, which of the following is most likely?

A. The supply of corn decreases, raising the equilibrium price and lowering the equilibrium quantity
B. The supply of corn increases, because higher soybean revenue lets farmers buy more equipment
C. The demand for corn decreases because corn and soybeans are substitutes, so the price of corn falls
D. There is a movement along the supply curve for corn, but the supply curve does not shift
E. The supply of corn decreases, so both the equilibrium price and the equilibrium quantity of corn fall

[1 point] 4. The market supply of garden hoses is $Q_s = -40 + 8P$, where Q_s is thousands of hoses a month and P is the price in dollars. A cheaper plastic compound cuts the cost of making every hose by 5 dollars, so for any quantity, producers will now accept a price 5 dollars lower than before. At a market price of 20 dollars, the quantity of hoses supplied:

A. rises from 120 thousand to 160 thousand a month
B. rises from 120 thousand to 125 thousand a month
C. falls from 120 thousand to 80 thousand a month
D. stays at 120 thousand a month, because the price of hoses has not changed
E. rises from 120 thousand to 200 thousand a month

[1 point] 5. When Glenmere Car Wash raises its price from 10 dollars to 14 dollars, the number of cars it washes falls from 1,300 to 900 a week. Using the midpoint method, the price elasticity of demand (in absolute value), the classification of demand, and the effect of the price rise on weekly total revenue are:

A. 0.77, inelastic; total revenue rises
B. 1.09, elastic; total revenue rises
C. 1.56, elastic; total revenue falls
D. 0.92, inelastic; total revenue rises
E. 1.09, elastic; total revenue falls

[1 point] 6. Weekly demand for tickets at the Corbel Street Comedy Club is $Q = 600 - 20P$, where Q is tickets per week and P is the price in dollars. Which of the following is correct?

A. Demand is equally elastic at every price, because the demand curve has the same slope everywhere
B. Demand is inelastic at every price above 15 dollars, so a price rise from 20 to 22 dollars would raise total revenue
C. Total revenue is greatest at a price of 15 dollars, where demand is unit elastic
D. Total revenue is greatest at a price of 30 dollars, where demand is perfectly inelastic
E. Demand is elastic at every price below 15 dollars, so a price cut from 10 to 8 dollars would raise total revenue

[1 point] 7. Other things equal, the demand for a good is likely to become MORE price elastic when:

A. rival brands leave the market, so buyers have fewer close substitutes
B. buyers are given more time to adjust to a change in its price
C. it comes to take up a smaller share of buyers' budgets
D. the market is defined more broadly, for example all soft drinks instead of one brand of lemonade
E. buyers come to regard it as a necessity instead of a luxury

[1 point] 8. In the second week of December, the price that tree farms in Tamarack County receive for a cut Christmas tree rises from 40 dollars to 60 dollars. Within the same week the farms raise the number of trees they cut and sell from 900 to 1,100 a day. Using the midpoint method, the price elasticity of supply and its classification are:

A. 2.0; supply is elastic
B. 0.5; supply is elastic
C. 1.0; supply is unit elastic
D. 0.44; supply is inelastic
E. 0.5; supply is inelastic

[1 point] 9. When the price of the Vexa games console falls from 550 dollars to 450 dollars, weekly sales of Vexa game cartridges rise from 9,400 to 10,600, other things equal. Using the midpoint method, the cross-price elasticity of demand for the cartridges with respect to the price of the console, and the relationship between the two goods, are:

A. +0.6; the goods are substitutes
B. +0.6; the goods are complements
C. −0.6; the goods are substitutes
D. −0.6; the goods are complements
E. +1.67; the goods are substitutes

[1 point] 10. In the town of Hollinsby, average household income rises by 10 percent. Other things equal, the quantities demanded of three goods change as shown in the table. Which of the following is correct?

Good	Change in quantity demanded (at unchanged prices)
X: house-cleaning services	+25%
Y: toothpaste	+4%
Z: margarine	−8%

A. Y is an inferior good, because its income elasticity, 0.4, is positive but less than 1
B. Z is a normal good with an income elasticity of 0.8
C. X is a normal good with an income elasticity of 2.5, and Z is an inferior good
D. Y is a normal good with an income elasticity of 2.5
E. Z is an inferior good, so its demand curve slopes upward

[1 point] 11. In the weekly market for cut flowers in Ravensby, demand is $P = 16 - 0.2Q$ and supply is $P = 4 + 0.1Q$, where P is the price in dollars per bunch and Q is thousands of bunches. At the market equilibrium, consumer surplus and producer surplus are, in thousands of dollars a week:

A. 160 and 80
B. 320 and 160
C. 80 and 160
D. 160 and 160
E. 160 and 240

[1 point] 12. At a swap meet in the beach town of Calder Bay, five buyers each want one used surfboard and five sellers each have one board to sell; the boards are identical. The table lists the buyers from the highest willingness to pay down and the sellers from the lowest minimum acceptable price up. If the boards trade in a competitive market at a single price, how many boards are sold, and what is the total economic surplus?

Rank	Buyer: willingness to pay (dollars)	Seller: minimum price (dollars)
1	320	110
2	270	170
3	230	210
4	200	250
5	150	290

A. 5 boards, and total surplus is 140 dollars
B. 4 boards, and total surplus is 280 dollars
C. 3 boards, and total surplus is 820 dollars
D. 2 boards, and total surplus is 310 dollars
E. 3 boards, and total surplus is 330 dollars

[1 point] 13. The table shows the daily market for pumpkins at a farm-stand cooperative in the week before Halloween. If the price is currently 3 dollars per pumpkin, then at that price there is:

Price (dollars)	Quantity demanded	Quantity supplied
3	800	500
4	700	700
5	600	900
6	500	1,100

A. a shortage of 300 pumpkins, and the price rises until 800 pumpkins are sold
B. a shortage of 200 pumpkins, and the price rises to 4 dollars
C. a shortage of 200 pumpkins, and the price stays at 3 dollars because the stand sells out
D. a shortage of 100 pumpkins, and the price rises until 800 pumpkins are sold
E. a shortage of 300 pumpkins, and the price rises to 4 dollars

[1 point] 14. In the market for beef, the price of chicken, which consumers regard as a substitute for beef, falls sharply. At the same time, a drought raises the cost of the feed that cattle ranchers buy. Which of the following best describes the effect on the equilibrium in the beef market?

A. The price of beef falls, and the change in quantity is indeterminate
B. The quantity of beef falls, and the change in price is indeterminate
C. The price of beef rises and the quantity of beef falls
D. Both the price and the quantity of beef fall
E. The price of beef rises, and the change in quantity is indeterminate

[1 point] 15. In the city of Dunmore, monthly demand for apartments is $Q_d = 4{,}000 - 2P$ and supply is $Q_s = -500 + P$, where P is the monthly rent in dollars and Q is the number of apartments. The city imposes a rent ceiling of 1,200 dollars a month. The rent ceiling causes:

A. a shortage of 600 apartments and a deadweight loss of 67,500 dollars a month
B. a shortage of 900 apartments and a deadweight loss of 135,000 dollars a month
C. a shortage of 900 apartments and a deadweight loss of 67,500 dollars a month
D. a shortage of 600 apartments and a deadweight loss of 45,000 dollars a month
E. a shortage of 600 apartments and a deadweight loss of 135,000 dollars a month

[1 point] 16. In the country of Corvania, weekly demand for peanuts is $Q_d = 600 - 20P$ and supply is $Q_s = -200 + 20P$, where P is dollars per bag and Q is thousands of bags. The government sets a minimum price of 26 dollars a bag and does not buy the surplus. With deadweight loss measured, as usual, by the triangle between the demand and supply curves over the trades that no longer take place, the price floor creates:

A. a surplus of 120 thousand bags and a deadweight loss of 720 thousand dollars a week
B. a surplus of 240 thousand bags and a deadweight loss of 1,440 thousand dollars a week
C. a surplus of 120 thousand bags and a deadweight loss of 360 thousand dollars a week
D. a surplus of 240 thousand bags and a deadweight loss of 720 thousand dollars a week
E. a surplus of 120 thousand bags and a deadweight loss of 1,440 thousand dollars a week

[1 point] 17. In the weekly market for bundles of firewood in Elmbury, demand is $Q_d = 900 - 30P$ and supply is $Q_s = 100 + 10P$, where P is dollars per bundle. The town imposes a tax of 4 dollars per bundle, collected from sellers. After the tax, the price buyers pay, and the share of the tax borne by sellers, are:

A. 21 dollars; three-quarters
B. 24 dollars; none
C. 23 dollars; one-quarter
D. 22 dollars; one-half
E. 21 dollars; one-quarter

[1 point] 18. In the market for pressure cookers in Brisa, demand is $P = 50 - 0.5Q$ and supply is $P = 10 + 0.5Q$, where P is dollars per cooker and Q is thousands of cookers a year. The market has no externalities. The government pays producers a subsidy of 6 dollars for every cooker sold. The yearly cost of the subsidy to the government, and the deadweight loss it creates, are:

A. 240 thousand dollars and 18 thousand dollars
B. 276 thousand dollars and 36 thousand dollars
C. 276 thousand dollars and 18 thousand dollars
D. 240 thousand dollars and zero, because the subsidy raises output
E. 138 thousand dollars and 36 thousand dollars

[1 point] 19. Valdoria is a small country that cannot affect the world price of almonds. Its domestic demand is $Q_d = 120 - 2P$ and its domestic supply is $Q_s = -30 + 3P$, where P is dollars per bag and Q is thousands of bags a month. If Valdoria opens its almond market to trade at a world price of 34 dollars, which of the following is correct?

A. Valdoria exports 12 thousand bags a month, and both its consumer and its producer surplus rise
B. Valdoria exports 20 thousand bags a month; consumer surplus falls and producer surplus rises
C. Valdoria exports 12 thousand bags a month; consumer surplus falls and producer surplus rises
D. Valdoria exports 72 thousand bags a month, all of its domestic production
E. Valdoria exports 20 thousand bags a month, and its total economic surplus falls

[1 point] 20. Ostavia, a small country, imports most of the rice it eats at the world price. Its government then sets an import quota that allows in only half as much rice as was imported under free trade. Compared with free trade, which of the following is most likely to happen in Ostavia's rice market?

A. The price of rice stays at the world price, and only the quantity imported falls
B. The price of rice rises, and domestic rice production falls
C. The price of rice falls, because domestic farmers expand output to replace the imports
D. The price of rice rises, domestic production rises, and total economic surplus falls
E. The price of rice rises, and domestic consumption rises because farmers sell more at home

Short Answer (1 question)

[10 points] 21. International trade and a tariff. Kestria is a small country whose domestic market for cast-iron skillets is perfectly competitive. Domestic demand is $Q_d = 180 - 3P$ and domestic supply is $Q_s = -40 + 2P$, where P is the price in dollars per skillet and Q is thousands of skillets a month. Kestria can buy as many skillets as it wants on the world market at a world price of 30 dollars, and its purchases are too small to change that price. Imported and domestic skillets are identical. All totals (surplus, revenue and deadweight loss) are in thousands of dollars a month.

$$Q_d = 180 - 3P, \qquad Q_s = -40 + 2P, \qquad P_W = 30$$

[2 points] (a) Assume Kestria does not trade. Calculate (i) the equilibrium price and quantity of skillets and (ii) producer surplus at that equilibrium. Show your work.

[2 points] (b) Kestria now opens its skillet market to free trade at the world price. (i) Calculate the quantity domestic consumers buy, the quantity domestic producers sell, and the quantity Kestria imports. (ii) Will domestic producer surplus increase, decrease or stay the same? Then calculate the change in Kestria's total economic surplus (consumer surplus plus producer surplus) from opening to trade. Show your work.

[2 points] (c) Kestria's government now imposes a tariff of 6 dollars on every imported skillet, and the world price stays at 30 dollars. Calculate (i) the price of skillets in Kestria and the quantity Kestria imports, and (ii) the government's tariff revenue. Show your work.

[2 points] (d) Draw a correctly labeled graph of Kestria's skillet market showing domestic demand, domestic supply, the world price P_W and the price in Kestria with the tariff, P_T. Label the quantities that domestic producers sell and domestic consumers buy with the tariff, Q_S and Q_D, and shade the area or areas of deadweight loss caused by the tariff.

[2 points] (e) (i) Calculate the deadweight loss caused by the tariff. Show your work. (ii) With the tariff still in place and the world price unchanged, domestic demand for skillets increases. Will the price of skillets in Kestria, the quantity domestic producers sell, and the quantity Kestria imports each increase, decrease or stay the same? Explain.

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