Student name:\_\_\_\_\_\_\_\_\_\_

1. Welfare economics

does not depend on market interactions.

only looks at the poorest parts of the economy.

examines the social desirability of alternative economic states.

uses only concepts of efficiency to evaluate the alternatives.

1. The absolute value of the slope of the production possibilities curve is the

marginal rate of substitution.

contract curve.

offer curve.

marginal rate of transformation.

1. The marginal rate of substitution is

the slope of the indifference curve.

the slope of the contract curve.

the slope of the utility possibilities curve.

the slope of the production possibility curve.

1. The First Fundamental Theorem of Welfare Economics requires

that a competitive economy does not allocate resources efficiently.

that centralized direction is necessary for an efficient allocation of resources.

that additional cost of each commodity is not reflected in its price.

that free enterprise systems are very productive.

1. Points outside the production possibilities curve are

producible.

endowment points.

consumer equilibrium points.

unattainable.

1. Market failure can occur when

firms are not price makers.

a market for a commodity does not exist.

individuals are not price makers

producers and consumers act as perfect competitors.

1. A public good is

a good that the public must pay for.

nonexcludable and nonrival in consumption.

excludable and rival in consumption.

always provided by the government.

1. Merit goods

are provided for those who are well behaved and earn them.

should be provided even if there is no demand for them.

increase in costs as demand increases.

should be provided if the demand for this good is very high.

1. A social welfare function

is a function made by the Department of Welfare.

depends on the utilities of each of its members.

can never be derived numerically.

depends only on the utilities of the wealthy people of the society

1. Movement from an inefficient allocation to an efficient allocation in the Edgeworth Box will

increase the utility of all individuals.

increase the utility of at least one individual, but may decrease the level of utility of another person.

increase the utility of one individual, but cannot decrease the utility of any individual.

decrease the utility of all individuals.

1. Points on the utility possibilities curve are

inefficient.

points of incomplete preferences.

not producible.

Pareto efficient.

1. The Edgeworth Box should

lie inside the production possibilities curve.

lie partially inside the production possibilities curve.

lie completely outside of the production possibilities curve.

never touch the production possibilities curve.

1. Pareto efficient points in the Edgeworth Box are

found when indifference curves intersect.

found when MRS are not equal.

found when one person cannot be made better off without making another person worse off.

found when indifference curves lie outside the Edgeworth Box

1. According to the Second Fundamental Theorem of Welfare Economics,

society can attain any Pareto efficient allocation of resources.

not all points along the utility possibilities curve are attainable.

equity cannot be achieved without inhibiting efficiency.

production must be twice as large as consumption.

1. Welfare economics is concerned with individual desirability of alternative economic states.

True

False

1. The contract curve is the collection of points where indifference curves are tangent in the Edgeworth box.

True

False

1. The utility possibilities curve is derived from the contract curve.

True

False

1. When the First Fundamental Theorem of Welfare Economics doesn't hold, there is a market failure.

True

False

1. An example of an activity that generates an externality is pursuing a graduate degree in economics.

True

False

1. Social indifference curves are the same as a social welfare function.

True

False

1. A utility possibilities curve need not incorporate the utility of every individual.

True

False

1. For Pareto efficiency, the MRT should not equal the MRS of all individuals.

True

False

1. The government must intervene in markets in order to move the economy to the welfare maximizing point.

True

False

1. There is only one Pareto efficient point on the contract curve.

True

False

1. Marginal cost is the incremental production cost of one more unit of output.

True

False

1. Pareto improvement can be a reallocation of resources that makes more than one person better off.

True

False

1. Consider an Edgeworth economy where there are two citizens, Mr. Cortopassi and Ms. Thomas. There are only two goods to be consumed in the economy, Beer and Pretzels. The total amount of Beer is 12 units. The total amount of Pretzels is 12 units. Answer the following: Suppose Mr. Cortopassi has utility for the two goods characterized as UC(B,P) = B + P. Ms. Thomas's utility function is UT(B,P) = B + P. Identify the points that are Pareto efficient.

1. Imagine a simple economy with only two people, Leroy and Percy. If the social welfare function is W = UL + UP, and the utility possibilities curve is UPF = UL + 2UP, what will be the societal optimum?



1. If James has an indifference curve characterized by the function of U = 2X3 Y2, what is his marginal rate of substitution of good X for good Y?

1. Consider a simple exchange economy where the marginal rate of transformation between two goods is greater than the marginal rate of substitution for the same goods. Can the Pareto equilibrium be derived?

1. Suppose that a competitive firm's marginal cost of producing output q is given by MC = 5 + 2q. Assume that the market price of the firm's product is $27. What level of output will the firm produce?

1. Social welfare functions can be formed in many ways. They can be additive, meaning that all utilities are added together. They can incorporate the idea of maximin, meaning that the utility of the person with the least is maximized. If you were a central planner for an economy, what type of social welfare function would you create?

1. Merit goods have been discussed towards the end of this chapter. Can concerts and other publicly provided services be rationalized using these ideas?

1. Why might asymmetric information contribute to the problem of a market failure?

**Answer Key**Test name: Chapter 02 Test Bank

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Short Answer

Short Answer

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Short Answer

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