TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) A two-part tariff refers to a pricing schedule under which a buyer must pay a fixed fee for the right to purchase the product, in addition to a per-unit price.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

2) Refer to Figure 16-5. Suppose the firm represented in the diagram decides to use a two-part pricing strategy such that it charges a fixed fee and a per-unit price equal to the competitive price. (This is also called an optimal two-part tariff.) What is the total revenue it can expect to collect from the fixed fee portion of the price?
   A) $2,560  
   B) $5,760  
   C) $7,870  
   D) $10,240

3) Consider the following pricing strategies:
   a. perfect price discrimination
   b. charging different prices to different groups of customers
   c. optimal two-part tariff
   d. single-price monopoly pricing

Which of the pricing strategies allows a producer to capture the entire consumer surplus that would have gone to consumers under perfect competitive pricing?
   A) a, b, c, and d  
   B) a, b, and c only  
   C) a and b only  
   D) a and c only
4) Though large firms have the knowledge and resources to utilize a better pricing strategy, many choose to use cost-plus pricing. One reason for this is that
   A) the additional revenue that would result from a profit-maximizing pricing strategy is an insignificant fraction of the firms’ revenues.
   B) there is less risk of violating antitrust laws if a cost-plus pricing strategy is used rather than a profit-maximizing pricing strategy.
   C) firms often adjust the markup they charge to reflect current demand.
   D) large firms do not have to maximize their profits because they face little competition from other firms.

5) Many firms use technology to gather information on the preferences of consumers and their responses to changes in prices. This information is then used to adjust prices of the firms’ goods and services. This practice is called
   A) econometrics.                B) price discovery.
   C) yield management.           D) empirical research.

6) Calling long distance is often more expensive on weekdays between 8 am and 5 pm than in the evening hours. Why is this the case?
   A) Telephone companies hope to discourage customers from calling long distance during the day to keep their labor costs down.
   B) Increasingly, businesses who must call suppliers or customers during business hours resort to the internet, thereby reducing demand for long-distance calls. To make up for this fall in demand, telephone companies charge higher rates.
   C) The cost of making long-distance connections is higher during the day than in the evenings.
   D) Businesses who must call suppliers or customers during business hours have few alternatives and therefore have an inelastic demand during the workday compared to after-work hours.
Plato Playhouse, a theatre company in the university town of Wegg, caters to two groups of customers: students and the non-student population. Figure 16-2 shows the demand curves for the two groups of customers.

7) Refer to Figure 16-2. Suppose Plato Playhouse price discriminates. Which of the following statements is true?
   
   A) By charging two different prices, the theatre company essentially allows those willing to pay higher prices to subsidize those who are not.
   B) By charging two different prices, the theatre company has redistributed some profits from those who can pay higher prices to those who cannot, thereby improving equity.
   C) By charging two different prices, the theatre company has redistributed some profits from those who can pay higher prices to those who cannot, thereby increasing economic efficiency.
   D) Plato Playhouse will earn higher profits if it charges a single price—an average of the two prices—instead of charging two different prices to the two different groups of customers.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

8) Under what circumstances will the law of one price hold, and when might it not hold?

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

9) With an optimal two-part tariff
   
   A) all consumer surplus is transformed into profit.
   B) consumer surplus equals producer surplus.
   C) the firm earns zero profit.
   D) consumers maximize consumer surplus.
Table 16-3

<table>
<thead>
<tr>
<th>Potential Customer</th>
<th>Willingness to Pay (dollars per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arun</td>
<td>$8</td>
</tr>
<tr>
<td>Bernice</td>
<td>9</td>
</tr>
<tr>
<td>Cara</td>
<td>10</td>
</tr>
<tr>
<td>Dawn</td>
<td>12</td>
</tr>
</tbody>
</table>

Julie plans to start a pet-sitting service. She surveyed her neighborhood to determine the demand for this service. Assume that each person surveyed demands only one hour of pet sitting services per period. Table 16-3 above shows a portion of her survey results.

10) Refer to Table 16-3. Suppose Julie's marginal cost of providing this service is constant at $7 and she charges $7. How many hours will be purchased and what is her total revenue?
   A) 5 hours; total revenue = $35
   B) 4 hours; total revenue = $28
   C) 3 hours; total revenue = $21
   D) 2 hours; total revenue = $14

11) For a firm that can effectively price discriminate, who will be charged a lower price?
   A) buyers that are members of the largest market segment
   B) buyers that are members of the smallest market segment
   C) customers who have an inelastic demand for the product
   D) customers who have an elastic demand for the product

12) Cost-plus pricing would be consistent with selecting the profit-maximizing price when
   A) a firm has no difficulty estimating its demand curve.
   B) consumers value the product beyond its marginal cost.
   C) the demand for the firm's product is unit elastic.
   D) it results in a price that causes quantity sold to be where marginal revenue equals marginal cost.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

13) If a monopolist engages in first-degree price discrimination, it will produce the same output level as a perfectly competitive industry.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

14) According to the law of one price, identical products should sell for the same price everywhere if
   A) firms can prevent consumers from engaging in arbitrage.
   B) consumers have knowledge of the prices charged for products in different markets.
   C) there are no tariffs or other restrictions on imports or exports.
   D) transactions costs are zero.
15) Refer to Figure 16-1. What is the economically efficient output level?
A) Q1 units  B) Q2 units  C) Q3 units  D) Q4 units

16) Consider three pricing strategies that the firm can pursue:
   a. optimal two-part tariff pricing
   b. perfect price discrimination
   c. single-price monopoly pricing

   Of these three strategies, which method gives the firm the highest profit?
   A) perfect price discrimination
   B) optimal two-part tariff pricing
   C) single-price monopoly pricing
   D) The profit is the same under optimal two-part tariff pricing and perfect price discrimination and the profit is higher than under single-price monopoly pricing.

17) Which of the following describes two-part tariff pricing?
   A) A buyer must pay a down payment and monthly payments to buy big-ticket items such as a car, a plasma television, or a suite of furniture.
   B) An importer has to pay a tax at the nation's borders, and a sales tax when the good is sold.
   C) A firm charges two different prices for the same good.
   D) A buyer pays an initial price for entrance to the market and an additional fee for each unit of the product purchased.
Yield management and price discrimination have enabled firms to increase profits and, at the same time:

A) transfer some producer surplus to consumers.
B) capture some consumer surplus.
C) reduce transactions costs.
D) reduce the cost of production.

Figure 16-6

Watanabe Sensei operates the only martial arts school in Hartfield. For simplicity, assume that consumers have identical demand curves and that Sensei knows what this demand curve is. Figure 16-6 shows this demand curve.

19) Refer to Figure 16-6. If Sensei charges the competitive price for his classes, what is the maximum amount of admission fee that he can collect from his customers?
A) the area $A + B + C + D + E$
B) the area $A + B$
C) the area $A + B + C + D$
D) the area $A + C + D + G + H$

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

20) If a country has an absolute advantage in producing a product, it must also have a comparative advantage in producing that product.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

21) Which of the following is not an example of a trade restriction?
A) tariffs
B) legislation requiring that cars sold in a country have a 50 percent domestic content
C) consumer preferences for goods produced domestically
D) quotas and voluntary export restraints
22) The World Trade Organization (WTO) promotes foreign trade and investment, or globalization. In recent years opposition to globalization has led to violent protests at meetings of the WTO. One reason for these anti-globalization protests is
   A) foreign trade and investment are examples of zero-sum games.
   B) protesters believe that free trade destroys the distinctive cultures of many countries.
   C) protesters believe that globalization will result in a return to communism in developing countries.
   D) protesters object to the loss of intellectual property (such as software programs and movies) that results from foreign trade and investment.

23) Measuring the impact of a quota or tariff on the U.S. economy is an example of ________. Stating that a quota or tariff should be eliminated is an example of ________.
   A) econometric analysis; protectionism
   B) statistical analysis; economic analysis
   C) trade analysis; an opinion
   D) positive analysis; normative analysis

*Figure 9-1*

Figure 9-1 shows the U.S. demand and supply for leather footwear.

24) Refer to Figure 9-1. Suppose the government allows imports of leather footwear into the United States. The market price falls to $18. What is the value of domestic producer surplus?
   A) $0.  
   B) $40.  
   C) $320.  
   D) $360.

25) Absolute advantage is
   A) the ability to produce higher quality goods compared to one's competitors.
   B) the ability to produce more of a good or service than competitors that have more resources.
   C) the ability to produce a good or service at a higher opportunity cost than one's competitors.
   D) the ability to produce more of a good or service than competitors when using the same amount of resources.
Table 9-2

<table>
<thead>
<tr>
<th></th>
<th>Pies</th>
<th>Cakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarita</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Gabriel</td>
<td>12</td>
<td>16</td>
</tr>
</tbody>
</table>

Sarita and Gabriel own S&G Bakery. Table 9-2 lists the number of pies and cakes Sarita and Gabriel can each bake in one day.

26) Refer to Table 9-2. Select the statement that accurately interprets the data in the table.

A) Gabriel has a greater opportunity cost than Sarita for baking pies.
B) Sarita has a greater opportunity cost than Gabriel for baking cakes.
C) Sarita's opportunity cost for baking cakes is less than Gabriel's.
D) Gabriel's opportunity cost for baking cakes and baking pies are both greater than Sarita's.

27) Which of the following is the best example of a voluntary export restraint?

A) a limit imposed by the U.S. government on the number of cell phones that the United States can import from Korea
B) a subsidy granted by the U.S. government to domestic cell phone manufacturers so they can compete more effectively with foreign cell phone manufacturers
C) a $50 per-cell phone fee imposed on all cell phones imported into the United States
D) a limit set by the Korean government on the number of cell phones that the United States can import from Korea.

Figure 9-2

Suppose the U.S. government imposes a $0.40 per pound tariff on rice imports. Figure 9-2 shows the impact of this tariff.

28) Refer to Figure 9-2. With the tariff in place, the United States

A) imports 15 million pounds of rice.
B) exports 31 million pounds of rice.
C) imports 16 million pounds of rice.
D) imports 9 million pounds of rice.
Linda and Sandy own The Preppy Puppy, a dog grooming business. Table 9-1 lists the number of dogs Linda and Sandy can each bathe and groom in one week.

<table>
<thead>
<tr>
<th></th>
<th>Bathing</th>
<th>Grooming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linda</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>Sandy</td>
<td>50</td>
<td>25</td>
</tr>
</tbody>
</table>

29) Refer to Table 9-1. Select the statement that accurately interprets the data in the table.
   A) Linda has an absolute advantage in dog bathing and dog grooming.
   B) Linda has an absolute advantage in dog bathing and Sandy has an absolute advantage in dog grooming.
   C) Sandy has an absolute advantage in dog bathing and dog grooming.
   D) Sandy has an absolute advantage in dog bathing and Linda has an absolute advantage in dog grooming.

Figure 9-1 shows the U.S. demand and supply for leather footwear.

30) Refer to Figure 9-1. Suppose the government allows imports of leather footwear into the United States. The market price falls to $18. What is the value of domestic producer surplus?
   A) $0.  
   B) $40.  
   C) $320.  
   D) $360.
Table 9-1

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<tbody>
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<td>20</td>
</tr>
<tr>
<td>Sandy</td>
<td>50</td>
<td>25</td>
</tr>
</tbody>
</table>

Linda and Sandy own The Preppy Puppy, a dog grooming business. Table 9-1 lists the number of dogs Linda and Sandy can each bathe and groom in one week.

31) Refer to Table 9-1. Select the statement that accurately interprets the data in the table.

A) Linda has a comparative advantage in dog bathing.
B) Sandy has a comparative advantage in dog bathing.
C) Sandy has an absolute advantage in dog bathing.
D) Linda has a comparative advantage in dog grooming and dog bathing.

32) Countries that engage in trade will tend to specialize in the production of goods and services in which they have _______ and will _______ these goods and services.

A) an absolute advantage; import
B) a comparative advantage; import
C) a comparative advantage; export
D) an absolute advantage; export
Answer Key
Testname: PS7

1) TRUE
2) B
3) D
4) C
5) C
6) D
7) A
8) When arbitrage can easily occur and transactions costs are zero, the law of one price will hold, but if transactions costs are not zero, the law of one price may not hold.
9) A
10) B
11) D
12) D
13) TRUE
14) D
15) C
16) D
17) D
18) B
19) A
20) FALSE
21) C
22) B
23) D
24) B
25) D
26) C
27) D
28) C
29) B
30) B
31) A
32) C