Economics 103 Fall 2011, Lab 3, Dr. Schuetze

Multiple Choice

1. Which of the following would lower the equilibrium price of tea?
a. a decrease in the price of coffee
b. an increase in income and tea is a normal good
c. an increase in the price of inputs in the production of tea
d. an increase in a fungus that has destroyed a large proportion of the tea crop

2. As a result of the increased wage package negotiated by the hospital and the hospital workers' union,
a. quantity supplied of hospital services will increase, with no change in supply.
b. supply of hospital services will increase.
c. quantity supplied of hospital services will decrease, with no change in supply.
d. supply of hospital services will decrease.

3. For an inferior good, a fall in consumers' income combined with increases in production costs, will lead to a
a. higher price of the inferior good.
b. lower price of the inferior good.
c. higher quantity (bought and sold) of the inferior good.
d. lower quantity (bought and sold) of the inferior goods.

4. When the government imposes a tax in a market and collects the tax from the producers,
a. the price of the good rises by the full amount of the tax.
b. the supply curve shifts down by the full amount of the tax.
c. the supply curve shifts up by the full amount of the tax.
d. both the demand and supply curves shift up by the full amount of the tax.

5. Consider the labour market for unskilled workers. With more job-training schemes in Canada, the demand for labour will shift to the and the wage rate as well as employment will .
a. right; increase
b. left; decrease
c. right, decrease
d. left, increase

The lab is continued on the next page.

Problem

Suppose the Canadian government is considering the use of price supports to provide income assistance to Canadian wheat farmers. It has two schemes in mind. Scheme A uses price floors, which it will maintain by buying up the surplus wheat production. Scheme B uses target prices in combination with quotas. In Scheme B, the government limits overall production and gives the farmer an amount equal to the difference between the market price and the target price for each unit sold. Consider the market for wheat depicted in the accompanying diagram:
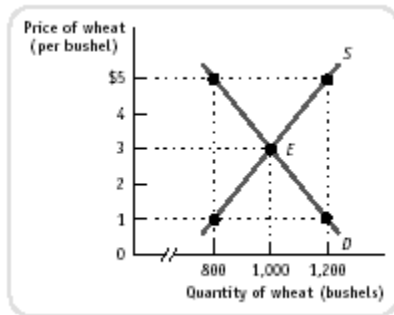
a. If the government sets a price floor of $5.00, how many bushels of wheat are produced? How many are purchased by consumers? By the government? How much income do wheat farmers earn? How much does the program cost the government?

b. Suppose the government sets a target price of $5.00 and a quota of 1,000 bushels. How many bushels of wheat are purchased by consumers and at what price? By the government? How much revenue do wheat farmers receive? How much does the program cost the government?

c. Which program costs wheat consumers more? Which program costs the government more? Explain.

d. What are the inefficiencies that arise in each case?