Econ 101 Discussion Section

Worksheet 6: Chapter 7

Review of Concepts:

- Consumer Surplus
- Producer Surplus
- Market Efficiency

Practice Exercises: Short Answers

In the market for strawberries the demand is $P = 30 - 2Q_d$ and the supply of strawberries is equal to $P = 10 + 2Q_s$.

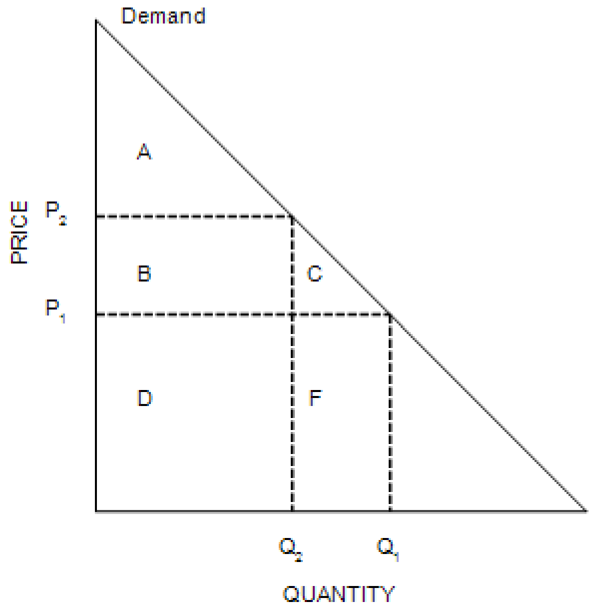
a. What is the equilibrium price and quantity for strawberries in the market?
b. What is the Consumer and Producer Surplus in the market?

Suppose the local government wants to help the farmers of strawberries and places a price floor of $24.

c. What is the surplus that is created as a result of the price floor?
d. What is the new consumer and producer surplus?
e. What is the deadweight loss as a result of the price floor?

Practice Exercises: Multiple Choice

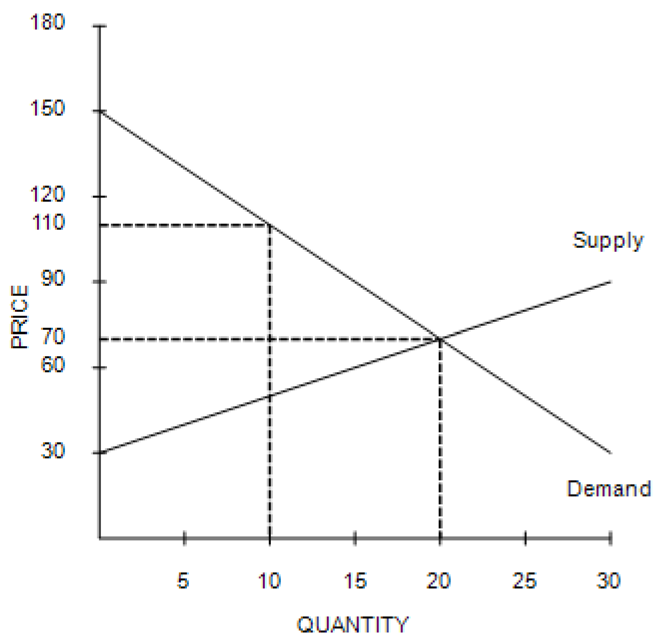
Figure 7-1



1. **Refer to Figure 7-1**. When the price is P_2, consumer surplus is
   a. A+B+C.
   b. A+B+D.
   c. A.
   d. A+B.

2. **Refer to Figure 7-1**. Suppose that the price falls from P_2 to P_1. Area B represents the
   a. decrease in producer surplus that results from a downward-sloping demand curve.
   b. additional consumer surplus to initial consumers when the price falls.
   c. consumer surplus to new consumers who enter the market.
   d. decrease in producer surplus in the market when the price increases from P_1 to P_2.

Figure 7-2



3. **Refer to Figure 7-2.** At the equilibrium price, consumer surplus is
   a. $600.
   b. $800.
   c. $200.
   d. $1,600.

4. **Refer to Figure 7-2.** If the government imposes a price floor of $110 in this market, then consumer surplus will decrease by
   a. $800.
   b. $200.
   c. $600.
   d. $400.

Table 7-11

Price (Dollars per unit)	**Quantity Demanded (Units)**	**Quantity Supplied (Units)**
12.00	0	36
10.00	3	30
8.00	6	24
6.00	9	18
4.00	12	12
2.00	15	6
0.00	18	0

5. **Refer to Table 7-11**. The equilibrium price is
   a. $10.00.
   b. $8.00.
   c. $6.00.
   d. $4.00.

6. **Refer to Table 7-11**. At a price of $2.00, total surplus is
   a. larger than it would be at the equilibrium price.
   b. smaller than it would be at the equilibrium price.
   c. the same as it would be at the equilibrium price.
   d. There is insufficient information to make this determination.

7. A simultaneous increase in both the demand for tablets and the supply of tablets would imply that
   a. both the value of tablets to consumers and the cost of producing tablets has increased.
   b. both the value of tablets to consumers and the cost of producing tablets has decreased.
   c. the value of tablets to consumers has decreased, and the cost of producing tablets has increased.
   d. the value of tablets to consumers has increased, and the cost of producing tablets has decreased.

8. Efficiency in a market is achieved when
   a. a social planner intervenes and sets the quantity of output after evaluating buyers' willingness to pay and sellers' costs.
   b. the sum of producer surplus and consumer surplus is maximized.
   c. all firms are producing the good at the same low cost per unit.
   d. no buyer is willing to pay more than the equilibrium price for any unit of the good.

Indicate whether the statement is true or false.

9. Consumer surplus is the amount a buyer is willing to pay for a good minus the amount the buyer actually has to pay for it.
   a. True
   b. False

10. Suppose there is an increase in supply that reduces market price. Consumer surplus increases because (1) consumer surplus received by existing buyers increases and (2) new buyers enter the market.
   a. True
   b. False

11. An increase in price increases consumer surplus.
   a. True
   b. False

12. If the government imposes a binding price ceiling in a market, then the producer surplus in that market will increase.
   a. True
   b. False

Works Cited:

- Mankiw, Gregory. *Principles of Microeconomics. 9th ed. Cengage Learning. 2021*
- https://www.ssc.wisc.edu/~ekelly/econ101/