Unit 4 Quiz B

Randomly select 3 questions to ask members of the group requesting the next set of assignments. If they get all questions correct, give them the entire stack of quizzes and assignments so that they can quiz the next group. If they get any question wrong, send them back to their seats to review and then try again in 10 minutes or more.

1. True or False and Explain Why: When the government imposes a tax on a market, it increases the price consumers pay and increases the price sellers receive.

   Answer: false. The tax increases the price consumers pay and DECREASES the price sellers receive. The tax is a wedge between supply and demand.

2. Which side of the market bears more of the tax burden: the side that is more elastic or the side that is more inelastic?

   Answer: the side that is more inelastic. They can't escape as easily, so they get stuck bearing the majority of the tax burden.

3. What is the main factor that determines whether demand for a good is elastic or inelastic?

   Answer: availability of close substitutes. If there are lots of close substitutes, you get elastic demand: when the price rises, quantity demanded responds a lot as people switch to buying substitutes.

4. What is "tax revenue" calculated as?

   Answer: size of the tax times the quantity exchanged.

5. What happens to the quantity of goods exchanged in a market after a tax is imposed?

   Answer: it decreases because the price buyers pay increases and the price sellers receive decreases.

6. If a person has very inelastic demand for a relationship, are they more likely or less likely to bear "relationship taxes" like driving long distances?

   Answer: more likely.

7. True or False: When both supply and demand are elastic, a tax causes a large deadweight loss.

   Answer: true

8. Which is more likely to have an elastic supply: Picasso paintings or toothpicks?

   Answer: toothpicks

9. Will the supply of agricultural products be more elastic in the short term or the long term?

   Answer: long term

10. If a $20 tax is imposed on a transaction that would normally generate $15 of total surplus, will the transaction still occur?

    Answer: no