Multiple-Choice Questions

1. For a price ceiling to be a binding constraint on the market, the government must set it
   a. above the equilibrium price.
   b. below the equilibrium price.
   c. precisely at the equilibrium price.
   d. at any price because all price ceilings are binding constraints.

2. A binding price ceiling creates
   a. a shortage.
   b. a surplus.
   c. an equilibrium.
   d. a shortage or a surplus depending on whether the price ceiling is set above or
      below the equilibrium price.

3. Suppose the equilibrium price for apartments is $800 per month and the government
   imposes rent controls of $500. Which of the following is unlikely to occur as a result of
   the rent controls?
   a. There will be a shortage of housing.
   b. Landlords may discriminate among apartment renters.
   c. Landlords may be offered bribes to rent apartments.
   d. The quality of apartments will improve.
   e. There may be long lines of buyers waiting for apartments.

4. A price floor
   a. sets a legal maximum on the price at which a good can be sold.
   b. sets a legal minimum on the price at which a good can be sold.
   c. always determines the price at which a good must be sold.
   d. is not a binding constraint if it is set above the equilibrium price.

5. Which of the following statements about a binding price ceiling is true?
   a. The surplus created by the price ceiling is greater in the short run than in the
      long run.
   b. The surplus created by the price ceiling is greater in the long run than in the
      short run.
   c. The shortage created by the price ceiling is greater in the short run than in the
      long run.
   d. The shortage created by the price ceiling is greater in the long run than in the
      short run.

6. Which side of the market is more likely to lobby government for a price floor?
   a. Neither buyers nor sellers desire a price floor.
   b. Both buyers and sellers desire a price floor.
   c. the sellers
   d. the buyers

7. The surplus caused by a binding price floor will be greatest if
   a. both supply and demand are elastic.
   b. both supply and demand are inelastic.
   c. supply is inelastic and demand is elastic.
   d. demand is inelastic and supply is elastic.

8. Which of the following is an example of a price floor?
   a. rent controls
   b. restricting gasoline prices to $2.00 per gallon when the equilibrium price is $3.00
      per gallon
   c. the minimum wage
   d. All of the above are price floors.

9. Which of the following statements is true if the government places a price ceiling
   on gasoline at $4.00 per gallon and the equilibrium price is $3.00 per gallon?
   a. There will be a shortage of gasoline.
   b. There will be a surplus of gasoline.
   c. A significant increase in the supply of gasoline could cause the price ceiling to
      become a binding constraint.
   d. A significant increase in the demand for gasoline could cause the price ceiling to
      become a binding constraint.
Practice Problems

1. Use the following supply and demand schedules for bicycles to answer the questions below.

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<th>Price</th>
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<th>Quantity Supplied</th>
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<tr>
<td>800</td>
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a. In response to lobbying by the Bicycle Riders Association, Congress places a price ceiling of $700 on bicycles. What effect will this have on the market for bicycles? Why?

b. In response to lobbying by the Bicycle Riders Association, Congress places a price ceiling of $400 on bicycles. Use the information provided above to plot the supply and demand curves for bicycles in Exhibit 1. Impose the price ceiling. What is the result of a price ceiling of $400 on bicycles?

c. Does a price ceiling of $400 on bicycles make all bicycle buyers better off? Why or why not?

d. Suppose instead, in response to lobbying by the Bicycle Manufacturers Association, Congress imposes a price floor on bicycles of $700. Use the information provided above to plot the supply and demand curves for bicycles in Exhibit 2. Impose the $700 price floor. What is the result of the $700 price floor?