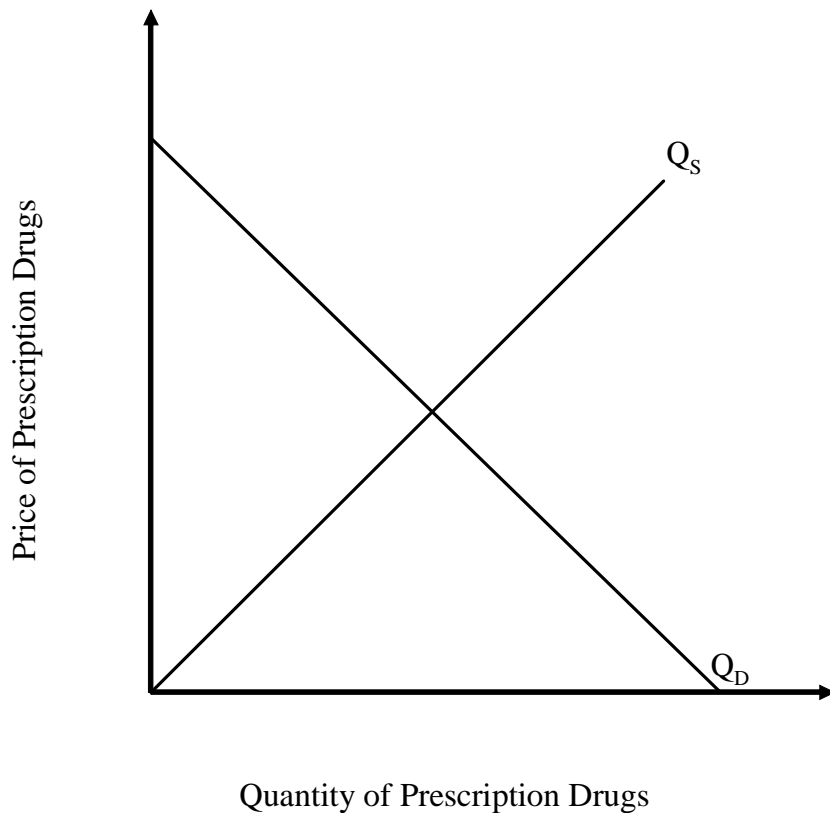


5. Mason has decided to earn a little extra money over the summer by mowing lawns for his neighbors. He determines that his total cost of mowing is \$7.50 per lawn regardless of how many lawns he mows. One neighbor is willing to pay Mason \$15 to mow. A second neighbor is willing to pay Mason \$10. A third neighbor is willing to pay Mason \$5, while a fourth neighbor is willing to pay \$4. How many lawns should Mason mow?
- One.
 - Two.
 - Three.
 - Four.
6. Which of the following is true about the two demand functions (i) $Q_D = 1,000 - 20P$ and (ii) $P = 50 - 0.05Q_D$?
- For any price, the quantity demanded for (i) is lower than for (ii).
 - For any price, the quantity demanded for (i) is higher than for (ii).
 - For any price, the quantity demanded for (i) is the same as for (ii).
 - For some prices, the quantity demanded for (i) is higher than for (ii), while for other prices, the quantity demanded for (i) is lower than for (ii).

7. The demand for tickets to Valley Fair Amusement Park is $Q_D = 5,000 - 120P$, while the supply of tickets is $Q_S = 80P$. What is the equilibrium price, P^* , and quantity, Q^* , for tickets to Valley Fair?
- $P^* = 25$ and $Q^* = 2,000$
 - $P^* = 30$ and $Q^* = 2,400$
 - $P^* = 2,000$ and $Q^* = 25$
 - $P^* = 2,400$ and $Q^* = 30$
8. Increases in the demand for oil have driven up the price of oil. This increase in the price of oil has driven up the demand for ethanol made from corn. How will this increased demand for corn ethanol affect the equilibrium price and quantity of corn?
- The equilibrium price and quantity of corn will decrease.
 - The equilibrium price and quantity of corn will increase.
 - The equilibrium price of corn will increase, while the equilibrium quantity decreases.
 - The equilibrium price of corn will decrease, while the equilibrium quantity increases.

9. The figure below illustrates the supply, Q_S , and demand, Q_D , for prescription drugs.
 - a. Illustrate the equilibrium market price and quantity. Label the equilibrium market price P^0 and the equilibrium market quantity Q^0 .
 - b. Illustrate the consumer and producer surplus for the equilibrium market price and quantity.
 - c. Suppose the government has decided that the price of prescriptions drugs is too high, so it passes a law imposing a price ceiling P^C that is below the market equilibrium price. Illustrate this price ceiling on the figure below.
 - d. Show the quantity of drugs supplied under this price ceiling and label it Q_S^C . Show the quantity of drugs demanded under this price ceiling and label it Q_D^C . What quantity of drugs will be traded? Does this price ceiling result in a surplus or shortage of drugs?
 - e. Explain why this price ceiling is inefficient.



10. Suppose the demand for prescription drugs is $Q_D = 1,000 - 20P_D$ and supply is $Q_S = 30P_S$.
- Find the equilibrium price and quantity for prescription drugs.
 - Suppose the government has decided the price of prescription drugs is too high, so it passes a law that pays the buyer of prescription drugs \$10 for each prescription purchased. What is the legal incidence of this subsidy?
 - With this \$10 subsidy, what is the equilibrium price received by prescription drug sellers? What is the equilibrium price paid by prescription drug buyers? What is the equilibrium quantity?
 - What is the total cost of this program to the government? What is the economic incidence of this subsidy?