Texas A&M University (TAMU) ECON202 Practice Exam 2 (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- **Practice answering questions under realistic conditions,**
- **Improve accuracy and speed,**
- **Review explanations to strengthen weak areas, and**
- **Approach the exam with greater confidence.**

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. **Is it true that if transaction costs are low, private bargaining will always result in an efficient solution to externalities?**
   - A. True
   - B. False
   - C. It depends on the extent of the externality
   - D. None of the above

2. **If you pay $2,000 in taxes on an income of $20,000 and $3,500 on an income of $30,000, what is the nature of this taxation?**
   - A. Proportional
   - B. Progressive
   - C. Regressive
   - D. Flat

3. **What results in a decrease in equilibrium quantity for a product?**
   - A. Only a decrease in supply
   - B. A decrease in demand or supply
   - C. Increase in demand without changes in supply
   - D. A change in consumer preferences only

4. **Suppliers are willing to supply a product if what condition is met?**
   - A. They have sufficient inventory
   - B. The price received covers the average cost of production
   - C. The price received is at least equal to the additional cost of producing the product
   - D. The demand for the product is high

5. **How is producer surplus carried out in a market?**
   - A. By calculating total revenue only
   - B. By measuring the total income of the workers
   - C. By finding the area above the supply curve
   - D. By finding the difference between supply price and minimum acceptable price

6. **If a price control is set below the equilibrium price, what is most likely to occur?**
   - **A. Quantity supplied will exceed quantity demanded**
   - **B. Markets will become perfectly competitive**
   - **C. Quantity demanded will exceed quantity supplied**
   - **D. There will be no impact on the market**

7. **What happens at the market equilibrium output when production creates positive externalities?**
   - **A. The private benefit is greater than the social benefit**
   - **B. The private benefit equals the social benefit**
   - **C. The social benefit exceeds the private benefit**
   - **D. The market equilibrium is inefficient**

8. **When both the supply curve shifts to the right and the demand curve shifts to the left by the same degree, what will happen to the equilibrium price and quantity?**
   - **A. Equilibrium price increases, quantity decreases**
   - **B. Equilibrium price decreases, quantity remains the same**
   - **C. Equilibrium price and quantity remain unchanged**
   - **D. Equilibrium price decreases, quantity decreases**

9. **What does the Coase Theorem state about negotiation?**
   - **A. It leads to conflicts between parties**
   - **B. It requires government mediation**
   - **C. It helps to allocate resources efficiently**
   - **D. It is less effective than regulation**

10. **The sum of consumer surplus and producer surplus is maximized at:**
    - **A. Equilibrium price**
    - **B. Price ceiling**
    - **C. Marginal cost**
    - **D. Price floor**

Answers

1. B
2. B
3. B
4. C
5. D
6. C
7. C
8. D
9. C
10. A

Explanations

1. **Is it true that if transaction costs are low, private bargaining will always result in an efficient solution to externalities?**

   A. True

   B. False

   C. It depends on the extent of the externality

   D. None of the above

The assertion that private bargaining will always result in an efficient solution to externalities when transaction costs are low is not necessarily true, hence the correct response is that it is false. While low transaction costs can facilitate negotiations between parties affected by externalities, several conditions must also be met for private bargaining to lead to an efficient outcome. For effective bargaining, affected parties need to have clear property rights and the ability to negotiate without significant barriers. Furthermore, the nature and scope of the externality itself can affect the bargaining process. For example, if there are many parties involved, coordination becomes more challenging, and the potential for inefficiency increases despite low transaction costs. In addition, even when transaction costs are low, externalities can persist if one of the parties involved does not have adequately defined rights or if information asymmetries exist, which can hinder fair negotiation. Therefore, while low transaction costs are beneficial, they are not a guarantee of achieving an efficient solution through private bargaining alone.

2. **If you pay $2,000 in taxes on an income of $20,000 and $3,500 on an income of $30,000, what is the nature of this taxation?**

   A. Proportional

   B. Progressive

   C. Regressive

   D. Flat

The nature of the taxation in this scenario is progressive. In a progressive tax system, individuals with higher incomes pay a larger percentage of their income in taxes compared to those with lower incomes. In the given example, when earning $20,000 and paying $2,000 in taxes, that translates to a tax rate of 10% ($2,000 divided by $20,000). However, when earning $30,000 and paying $3,500 in taxes, the tax rate is approximately 11.67% ($3,500 divided by $30,000). The increase in the effective tax rate as income rises is a hallmark of progressive taxation. This structure is designed to impose a greater tax burden on those who can afford to pay more, reflecting the idea that as income increases, the ability to bear taxes also increases. This contrasts with proportional taxation, where the tax rate remains the same regardless of income. Regressive taxation, on the other hand, imposes a higher burden on lower-income individuals, while a flat tax applies a single tax rate to all individuals, regardless of income level. Therefore, having a higher effective tax rate at a higher income confirms that the system described is indeed progressive.

3. What results in a decrease in equilibrium quantity for a product?

   A. Only a decrease in supply

   B. A decrease in demand or supply

   C. Increase in demand without changes in supply

   D. A change in consumer preferences only

A decrease in equilibrium quantity for a product occurs when there is a shift in either the demand or supply curve that leads to lower quantities being bought and sold. When both demand and supply decrease, the equilibrium quantity will drop because there are fewer goods being demanded at every price level while simultaneously fewer products are available for sale. This dual impact directly results in a lower quantity exchanged in the market. For example, if consumer demand drops due to changing tastes or preferences away from the good, that would decrease demand, leading to fewer products being bought. Meanwhile, if producers anticipate this decline or face rising production costs, they might reduce the quantity they supply to the market. The combination of these two factors effectively lowers the equilibrium quantity. In scenarios involving just a decrease in supply or a change in consumer preferences alone, the outcomes for equilibrium quantity could vary based on additional market factors and might not necessarily result in a decrease. For instance, a decrease in supply usually increases price, which could lead to a decrease in quantity demanded but doesn't always guarantee a net reduction in total quantity exchanged. Thus, the choice indicating a decrease in both demand and supply is correct in identifying the conditions necessary for a decrease in equilibrium quantity.

4. Suppliers are willing to supply a product if what condition is met?

   A. They have sufficient inventory

   B. The price received covers the average cost of production

   C. The price received is at least equal to the additional cost of producing the product

   D. The demand for the product is high

Suppliers are willing to supply a product primarily when the price they receive is at least equal to the additional cost of producing that product. This additional cost is referred to as the marginal cost, which represents the cost of producing one more unit of a product. If the price received meets or exceeds this marginal cost, suppliers can justify producing and supplying more of the good because they are able to cover their costs and potentially earn a profit. When suppliers can cover the additional costs associated with production, they are incentivized to increase supply. This concept aligns with the basic principles of supply in economics, where sellers will increase production as long as they can earn a profit on each additional unit sold. Thus, the willingness to supply is closely tied to the relationship between market prices and production costs, specifically marginal costs.

5. How is producer surplus carried out in a market?

A. By calculating total revenue only

B. By measuring the total income of the workers

C. By finding the area above the supply curve

D. By finding the difference between supply price and minimum acceptable price

Producer surplus is a crucial concept in economics that measures the benefit producers gain from selling a good or service at a market price higher than the minimum price they would be willing to accept. It reflects the difference between what producers are paid and the lowest price at which they would be willing to sell. Finding the difference between the supply price and the minimum acceptable price accurately captures this surplus. When producers sell at a market price that exceeds their costs or minimum acceptable prices, the excess represents additional benefit or surplus. This concept is graphically illustrated as the area above the supply curve and below the market price, but the correct approach to understanding producer surplus focuses directly on the price differential. Other choices may mention related concepts, such as total revenue or worker income, but they do not directly address how producer surplus is determined. The demand and supply curve interaction is what clearly defines the concept and quantifies producer surplus in this context.

6. If a price control is set below the equilibrium price, what is most likely to occur?

A. Quantity supplied will exceed quantity demanded

B. Markets will become perfectly competitive

C. Quantity demanded will exceed quantity supplied

D. There will be no impact on the market

When a price control is established below the equilibrium price, it creates a situation where the price at which goods or services can be sold is less than the price that would naturally occur in a free market. This typically leads to an increase in quantity demanded because consumers find the lower price attractive, making them more willing to purchase more of the good or service. At the same time, suppliers are less inclined to produce or sell the good at this lower price, resulting in a decrease in quantity supplied. Consequently, the situation results in a mismatch where the quantity demanded exceeds the quantity supplied, creating a shortage in the market. This scenario can lead to various consequences, such as long wait times for consumers, black markets, or rationing as suppliers try to manage the excess demand. This phenomenon highlights the critical balance between supply and demand and the potential distortions that can arise when government interventions, such as price controls, affect market dynamics.

7. **What happens at the market equilibrium output when production creates positive externalities?**

   A. **The private benefit is greater than the social benefit**

   B. **The private benefit equals the social benefit**

   C. **The social benefit exceeds the private benefit**

   D. **The market equilibrium is inefficient**

When discussing market equilibrium output in the presence of positive externalities, it's important to understand the distinction between private benefits and social benefits. In scenarios where positive externalities occur, the actions of individuals or firms create additional benefits that spill over to third parties who are not directly involved in the transaction. The correct choice highlights that the social benefit exceeds the private benefit. This is because the private benefit reflects only the gains experienced by the producer or consumer in a transaction, whereas the social benefit encompasses both the private benefit and the additional benefits experienced by others in society. In a perfectly competitive market without externalities, these two benefits would align, leading to socially optimal production levels. However, when positive externalities are present, the market fails to account for the additional social benefits, resulting in a lower quantity of goods being produced and consumed than what would be socially optimal. Therefore, the implication is that, at equilibrium, there is underproduction relative to the level that would maximize societal welfare. This situation leads to inefficiencies because consumers and producers are not recognizing the full positive impact their activities have on third parties, leading to social welfare not being fully maximized.

8. **When both the supply curve shifts to the right and the demand curve shifts to the left by the same degree, what will happen to the equilibrium price and quantity?**

   A. **Equilibrium price increases, quantity decreases**

   B. **Equilibrium price decreases, quantity remains the same**

   C. **Equilibrium price and quantity remain unchanged**

   D. **Equilibrium price decreases, quantity decreases**

When both the supply curve shifts to the right and the demand curve shifts to the left by the same degree, the changes in the market will create a clear impact on both equilibrium price and quantity. A rightward shift of the supply curve signifies an increase in supply, meaning that suppliers are willing to provide more goods at every price level. Conversely, a leftward shift of the demand curve indicates a decrease in demand, meaning consumers want to purchase fewer goods at each price level. In this scenario, the simultaneous shifts lead to an increase in the quantity available in the market driven by supply, while simultaneously reducing the quantity consumers are willing to purchase due to demand. The increase in supply tends to put downward pressure on price since more goods are available, while the decrease in demand also puts downward pressure on price as fewer goods are desired. Since the reduction in demand and the increase in supply occur by the same degree, the combined effect is that the equilibrium price will decrease as both supply and demand conditions push the market price downward. On the other hand, the equilibrium quantity is affected by the shifts; the net result of the increase from supply and decrease from demand leads to an overall decrease in the equilibrium quantity. Therefore, the equilibrium price decreases while the equilibrium quantity also

9. What does the Coase Theorem state about negotiation?

A. It leads to conflicts between parties

B. It requires government mediation

C. It helps to allocate resources efficiently

D. It is less effective than regulation

The Coase Theorem postulates that if property rights are well-defined and transaction costs are negligible, private negotiations between parties will lead to an efficient allocation of resources, regardless of the initial distribution of rights. This means that when individuals can negotiate freely without significant costs or barriers, they will arrive at outcomes that maximize total welfare and utilize resources most efficiently. The theorem emphasizes the importance of negotiation in resolving externalities—situations where a party's actions affect others. By allowing involved parties to bargain and reach agreements, they can internalize the external costs or benefits and find a mutually beneficial solution. This principle showcases the power of market forces and private negotiation in achieving efficiency, supporting the idea that minimal or no government intervention is needed in such scenarios. In contrast, the other options do not accurately reflect the core concept of the Coase Theorem. For instance, suggesting that negotiation leads to conflicts overlooks the theorem's assertion that efficient outcomes can be reached through dialogue. The notion that it requires government mediation contradicts the theorem's emphasis on private negotiations. Lastly, stating that it is less effective than regulation diminishes the theorem's argument about the effectiveness of private bargaining in achieving resource allocation efficiency when conditions are favorable.

10. The sum of consumer surplus and producer surplus is maximized at:

A. Equilibrium price

B. Price ceiling

C. Marginal cost

D. Price floor

The sum of consumer surplus and producer surplus is maximized at the equilibrium price because this is the price at which the quantity of goods demanded by consumers equals the quantity of goods supplied by producers. At equilibrium, resources are allocated efficiently, leading to the highest overall welfare in the market. At this price point, consumers are able to purchase goods at a price they are willing to pay, and producers are able to sell their goods for a price that covers their costs, ensuring that both groups benefit. Consumer surplus, which measures the difference between what consumers are willing to pay and what they actually pay, is maximized, as consumers can obtain goods at the lowest possible price that balances demand with supply. Likewise, producer surplus, the difference between the price producers receive and the minimum price they would accept, is also maximized at the equilibrium because producers can sell all the goods they are willing to produce without excess supply or unmet demand. When a price ceiling is imposed, it can lead to shortages, reducing the amount of consumer surplus because some consumers who are willing to pay more cannot find the good in the market. On the other hand, a price floor, set above equilibrium price, can lead to surpluses where prices are artificially high, causing excess supply and

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://tamu-econ202-exam2.examzify.com

We wish you the very best on your exam journey. You've got this!