TEXAS A&M UNIVERSITY (TAMU) ECON202 PRACTICE EXAM 2 (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. **What term describes the actual division of a tax burden?**
   A. Tax incidence
   B. Tax equity
   C. Tax efficiency
   D. Tax base

2. **What term is used to describe the benefit that consumers receive when they pay less than the maximum they are willing to pay?**
   A. Producer surplus
   B. Consumer surplus
   C. Market price
   D. Equilibrium effect

3. **In general, if demand is more elastic, who tends to bear less of the tax burden?**
   A. Consumers
   B. Producers
   C. Both equally
   D. There is no impact

4. **What happens when a Pigouvian subsidy is provided?**
   A. The marginal private benefit curve shifts downward
   B. The marginal private benefit curve shifts upward
   C. The demand curve for the good decreases
   D. The supply curve for the good decreases

5. **What is the effect of an increase in demand for lobster along with a decrease in supply due to weather conditions?**
   A. Equilibrium price remains unchanged; equilibrium quantity decreases
   B. Equilibrium price decreases; equilibrium quantity may increase or decrease
   C. Equilibrium price increases; equilibrium quantity may increase or decrease
   D. Equilibrium price remains unchanged; equilibrium quantity increases

6. If a firm produces at a price lower than it is willing to accept, what is this difference known as?

A. Consumer surplus

B. Producer surplus

C. Market price

D. Cost of production

7. If a good has a social benefit greater than the private benefit at the market equilibrium, what is the implication about its production?

A. It should be reduced

B. It should be encouraged

C. It is being efficiently produced

D. It is too expensive to produce

8. 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

9. If a drug that cures a communicable disease benefits those not directly involved, this is an example of what type of externality?

A. A negative externality

B. A private externality

C. A positive externality

D. An incidental externality

10. In relation to the market supply curve, the area above the supply curve and below the market price is equal to what?

A. Total revenue

B. Consumer surplus

C. Producer surplus

D. Economic surplus

Answers

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

Explanations

1. What term describes the actual division of a tax burden?

A. Tax incidence

B. Tax equity

C. Tax efficiency

D. Tax base

The term that describes the actual division of a tax burden is tax incidence. This concept refers to who ultimately bears the cost of a tax—whether that burden falls on consumers, producers, or some combination of both. Tax incidence assesses how tax burdens are shared among various economic participants and provides insights into the effects of taxation on overall welfare and resource allocation. Understanding tax incidence helps illustrate the dynamics of supply and demand in a market. For instance, when a tax is levied on a product, the way that price changes (and how that price change affects consumer behavior and supplier decisions) determines how the burden of that tax is distributed. The analysis can show whether consumers will pay higher prices or if producers will accept lower profits due to the tax. This concept is distinct from tax equity, which deals with the fairness of the tax system; tax efficiency, which focuses on the economic impact and behavior changing effects of taxes; and tax base, which refers to the total amount of income or value subject to taxation. Each of these concepts serves different purposes in the analysis of tax systems, but it is tax incidence that specifically addresses the actual distribution of the burden resulting from tax policy.

2. What term is used to describe the benefit that consumers receive when they pay less than the maximum they are willing to pay?

A. Producer surplus

B. Consumer surplus

C. Market price

D. Equilibrium effect

The term that describes the benefit consumers receive when they pay less than the maximum amount they are willing to pay is consumer surplus. This concept reflects the difference between what consumers are prepared to spend for a good or service and what they actually pay. When consumers obtain a product at a price lower than their maximum willingness to pay, they experience a gain, which enhances their overall satisfaction or utility. Consumer surplus is a key concept in economics as it illustrates how market transactions can lead to an increase in consumer welfare. For example, if a consumer is willing to pay $100 for a concert ticket but buys it for $75, they gain a consumer surplus of $25. This surplus can also indicate the efficiency of markets and how well they allocate resources, as higher consumer surplus tends to suggest that consumers are getting more value from their purchases relative to the prices they pay. Understanding consumer surplus helps to analyze the effects of pricing strategies, taxation, and subsidies on consumer behavior and overall market health. It's a fundamental component of welfare economics, providing insights into how changes in supply and demand affect consumer well-being.

3. In general, if demand is more elastic, who tends to bear less of the tax burden?

A. Consumers

B. Producers

C. Both equally

D. There is no impact

When demand is more elastic, consumers are more responsive to changes in price. This means that if a tax is imposed, consumers will reduce their quantity demanded significantly in response to a price increase caused by the tax. As a result, producers cannot pass on much of the tax burden to consumers without losing a substantial number of sales. In this scenario, the producers bear a larger share of the tax burden. Since prices are relatively sensitive to changes for elastic demand, suppliers are limited in their ability to raise prices without drastically affecting demand for their product. Therefore, when tax burdens are shared between consumers and producers, those in a situation where demand is more elastic will typically see consumers bearing less of the burden, as they will adjust their buying behavior more significantly in response to price increases. This dynamic highlights the importance of elasticity in determining how tax burdens are distributed between different market participants. Thus, consumers, facing the option to substitute goods or reduce consumption, effectively bear less of the tax burden when demand is elastic.

4. What happens when a Pigouvian subsidy is provided?

A. The marginal private benefit curve shifts downward

B. The marginal private benefit curve shifts upward

C. The demand curve for the good decreases

D. The supply curve for the good decreases

A Pigouvian subsidy is a financial incentive given to encourage positive externalities associated with the consumption or production of a good or service. When a Pigouvian subsidy is provided, it effectively reduces the cost of getting a good or service for consumers, which in turn raises their willingness to pay for it. This increase in willingness to pay causes the marginal private benefit curve to shift upward, reflecting that consumers derive greater private benefits from the good when it is subsidized. As the subsidy makes the good more attractive or affordable, more consumers are likely to purchase and consume it, enhancing social welfare and reducing the gap between private benefits and social benefits. In contrast, the other options do not accurately reflect the effects of a Pigouvian subsidy. A downward shift in the marginal private benefit curve would indicate a decrease in benefits, which contradicts the purpose of the subsidy. Similarly, a decrease in demand or a decrease in supply does not align with the intended effect of a subsidy, which is to stimulate demand and encourage production by lowering costs for consumers. Thus, the upward shift in the marginal private benefit curve represents the correct understanding of what occurs when a Pigouvian subsidy is introduced.

5. What is the effect of an increase in demand for lobster along with a decrease in supply due to weather conditions?

A. Equilibrium price remains unchanged; equilibrium quantity decreases

B. Equilibrium price decreases; equilibrium quantity may increase or decrease

C. Equilibrium price increases; equilibrium quantity may increase or decrease

D. Equilibrium price remains unchanged; equilibrium quantity increases

An increase in demand for lobster, coupled with a decrease in supply due to adverse weather conditions, will lead to a higher equilibrium price in the market for lobster. When demand rises, consumers are willing to pay more for the product, creating upward pressure on prices. Simultaneously, the decrease in supply means that there are fewer lobsters available for sale. The combination of increased demand and decreased supply results in a market scenario where buyers compete for a limited quantity of lobsters, driving the price up further. As for the equilibrium quantity, it may increase or decrease depending on the magnitude of the shifts in demand and supply. If the increase in demand is stronger than the decrease in supply, the equilibrium quantity could rise; however, if the supply decrease is more severe, the equilibrium quantity could decline. Therefore, the most accurate description of this scenario is an increase in equilibrium price with an indeterminate effect on equilibrium quantity.

6. If a firm produces at a price lower than it is willing to accept, what is this difference known as?

A. Consumer surplus

B. Producer surplus

C. Market price

D. Cost of production

The correct choice identifies the difference between the price a firm is willing to accept for its goods or services and the market price at which they actually sell. This difference is referred to as producer surplus. Producer surplus can be illustrated as the area above the supply curve and below the market price. It represents the additional benefit producers receive because they are able to sell their goods at a market price that exceeds the minimum price they would accept. When a firm produces and sells at a price lower than what it is willing to accept, it essentially captures the benefits of that difference as part of its producer surplus. This concept highlights the profitability and efficiency of the firm operating within the market framework. Consumer surplus, on the other hand, reflects the difference between the maximum price that consumers are willing to pay for a good or service and the price they actually pay, which does not pertain to the firm's willingness to accept a lower price. Market price simply refers to the prevailing price in the market, and the cost of production pertains to the expenses incurred in producing goods or services, neither of which encapsulates the concept of the benefit received by the producer from selling above their minimum acceptable price.

7. If a good has a social benefit greater than the private benefit at the market equilibrium, what is the implication about its production?

A. It should be reduced

B. It should be encouraged

C. It is being efficiently produced

D. It is too expensive to produce

When a good has a social benefit that exceeds the private benefit at market equilibrium, it indicates that the overall advantage to society from producing and consuming that good is greater than what individuals receive from it. This situation typically arises in the context of positive externalities, where the benefits of a good extend beyond the immediate consumers and producers to society as a whole. Encouraging the production of such goods is essential because the market, operating solely on private benefits, may underproduce them compared to the socially optimal level. By recognizing the greater social benefit, policymakers or market forces should work towards increasing production to enhance overall welfare. This can be achieved through subsidies, public provision, or other interventions that help to align private incentives with social benefits. Therefore, the implication that production should be encouraged reflects the need to address this disparity and ensure that the good is produced in quantities that maximize social well-being.

8. 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.

9. If a drug that cures a communicable disease benefits those not directly involved, this is an example of what type of externality?

A. A negative externality

B. A private externality

C. A positive externality

D. An incidental externality

The scenario described illustrates a positive externality. A positive externality occurs when a third party benefits from an economic transaction or activity in which they are not directly involved. In this case, the drug that cures a communicable disease not only helps those who are sick but also benefits other individuals and society at large by reducing the spread of the disease. This leads to improved public health outcomes, lower medical costs, and less economic disruption, representing the additional positive effects that extend beyond the individuals receiving the drug. Identifying this situation as a positive externality is crucial as it highlights the broader social benefits of certain goods or services that may not be reflected in the market price. This concept is essential in understanding public health investments and the rationale behind subsidies or support for innovations that yield societal advantages.

10. In relation to the market supply curve, the area above the supply curve and below the market price is equal to what?

A. Total revenue

B. Consumer surplus

C. Producer surplus

D. Economic surplus

The area above the supply curve and below the market price represents producer surplus. This concept reflects the difference between what producers are willing to accept for a good or service (as indicated by the supply curve) and what they actually receive (the market price). Producer surplus is important because it measures the benefit to producers from selling at a market price that is higher than their minimum willingness to accept. When producers sell their goods at a market price greater than the cost of production (represented by the supply curve), the area between the price line and the supply curve captures the additional benefit or surplus that producers earn. Calculating it, if you visualize the supply curve as a series of prices at which producers are willing to sell various quantities, the producer surplus is the triangular or trapezoidal area formed above this curve and below the market price line, up to the quantity sold. This area visually represents the extra earnings that producers gain due to favorable market conditions. In contrast, consumer surplus refers to the area below the demand curve and above the price, which measures the benefit to consumers. Total revenue would relate to the total amount received from the sale of goods, and economic surplus encompasses both consumer and producer surplus. However, the specific focus on the area above the

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!