**AP UNIT 3 FRQ PRACTICE**

1. Assume the market for wheat has a relatively inelastic supply and a typical downward sloping demand curve.

1. Correctly graph the market supply and demand for wheat and label:
   1. Market price with Pe
   2. Market output with Qe
2. Assume now that the government decided to subsidize wheat farmers. Show the effect of the subsidy on your graph for wheat and identify:
   1. New price consumers will pay for wheat with Pc
   2. The area of consumer surplus after the subsidy. Did it increase or decrease?
   3. Area of total benefit of the subsidy
3. Do producers of wheat receive more, less or equal benefit from the subsidy as consumers of wheat? Explain.
4. Assume instead of a subsidy the government decided to assist producers of wheat by enacting a price floor.
   1. Re-draw the original supply and demand for wheat and add an effective price floor marked Pf.
   2. Show the area of new producer surplus with the price floor.

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2. Assume the market for Good X has a perfectly elastic demand curve and a relatively inelastic supply curve.

1. Represent the market for Good X on a correctly labeled supply demand graph indicating the:
   1. Market price and output levels labeled Pe and Qe (2 pts)
   2. Area of producer surplus labeled PS (1 pt)
2. Now assume the government imposed a per unit excise tax on Good X. Show the impact of the excise tax on your graph from Part A and label:
   1. The new market price and output Pt and Qt respectively (2 pts)
   2. The producer’s net gain with the tax labeled Pp (1 pt)
3. What is the area of producer tax incidence equal to using the labels? (1 pt)
4. What is the consumer surplus equal to in dollars with the tax imposed? (1 pt)
5. How is the burden of the tax distributed among the consumers and producers? Explain. (2 pts)