

What is Deadweight Loss?

Worksheet

Deadweight loss is the loss of economic value when a market fails to clear at equilibrium due to price controls, taxes, or other frictions — it measures unrealised mutual gains.

Questions

1. Deadweight loss measures...

- A) the loss of economic efficiency
- B) only consumer loss
- C) only producer loss
- D) total sales revenue

2. A price floor above equilibrium creates deadweight loss by...

- A) reducing supply
- B) preventing mutually beneficial trades at lower price
- C) eliminating all demand
- D) raising inflation

3. Which policy does NOT create deadweight loss?

- A) A binding price ceiling
- B) A tax
- C) Allowing free-market equilibrium
- D) An import quota

4. Deadweight loss is often visualized as...

- A) a rectangle
- B) a triangle between supply and demand curves
- C) a circle
- D) a line

5. A binding price ceiling at 2 prevents equilibrium at 4. At \$2, quantity supplied is 100 and quantity demanded is 300. How many units represent deadweight loss?

6. A tax of 5 per unit is levied. Before tax, equilibrium was 1000 units at 10. After tax, quantity falls to 700 units. What is deadweight loss?

7. A quota limits imports to 50 units when 200 would clear the market. Consumer surplus loss is 300, producer gain is 180. Find deadweight loss.

8. Define: What is deadweight loss?

9. Define: When does deadweight loss occur?

10. Define: Who bears deadweight loss?

Answer Key

1. A) the loss of economic efficiency — Deadweight loss is the net loss in surplus — neither consumer nor producer surplus.
2. B) preventing mutually beneficial trades at lower price — The higher price prevents willing buyers and sellers from trading at quantities that would benefit both.
3. C) Allowing free-market equilibrium — Equilibrium maximizes total surplus — no deadweight loss in a perfectly competitive market.
4. B) a triangle between supply and demand curves — The triangle formed between the original and new equilibrium points represents lost surplus.
5. Equilibrium quantity at \$4: 200 units With price ceiling: only 100 units traded Deadweight loss = loss from untraded $200 - 100 = 100$ units of surplus
6. Lost trades = $1000 - 700 = 300$ units Each lost trade was mutually beneficial Deadweight loss $\approx 5 \times 300/2 = 750$ (triangle rule)
7. Total surplus lost = $300 - 180 = 120$ Deadweight loss = 120 (pure efficiency loss)
8. Loss of economic efficiency when a market fails to reach equilibrium, preventing mutually beneficial trades.
9. With price controls, taxes, quotas, monopoly power, or any friction that prevents supply and demand from equalizing.
10. Society as a whole — consumers and producers lose potential surplus that could have existed.

Bounlu

All cards, step-by-step solutions and an AI tutor are in the Notek app.
Promy turns exam dates into automatic reminders.