Student Name: _____

Class: Microeconomics   (Some of Tues and Wed classes)

Final Exam   December 10 and 11, 2003

Read these Instructions carefully! You must follow them exactly!

I)   On your Scantron card you **<u>must</u>** print three things:

      1) Your full name clearly;

      2) The day and time your class meets (for example MWF 1:25);

      3) The number I have written in ink on the upper right corner of
         your copy of this test. (This number tells me which version of the
         test you have. Without it your test cannot be graded properly and
         you get no credit for your answers.)

II)   Answer on your Scantron card, using a #2 pencil.

III) Warning: SOME QUESTIONS MUST BE ANSWERED SEVERAL
     TIMES! Such questions will begin with a phrase such as this:

      (**Repeat answer on Scantron lines 37, 38 and 39)**

           Remember to do it!

IV) **You must turn in this printed exam along with your Scantron card. Otherwise
    your score on this exam is "F".**

Questions:

   1.   **<u>(Repeat your answer on Scantron lines 27 and 28.)</u>** If government regulators want a natural
    monopolist to earn only a normal profit, then they will set price equal to:

     A)   marginal cost (MC).

     B)   average variable cost (AVC).

     C)   average fixed cost (AFC).

     D)   average total cost (ATC).

Use the following to answer question 2:
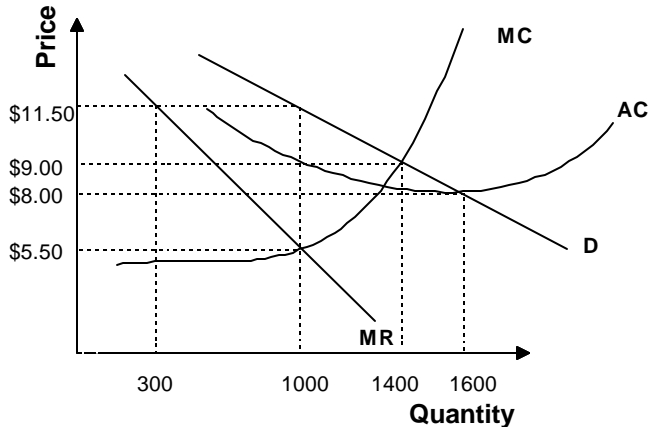
2. Refer to the graph above. If this firm were allowed to choose the profit-maximizing level of output, it would charge a price of:
   A) $11.50.
   B) $9.
   C) $8.
   D) $5.50

3. **(Repeat your answer on Scantron lines 29 and 30.)** If Suzy, Joe, Mary, Jim and Jane are voting on how expensive a restaurant to go to, and Suzy wants the total bill to be $50, Joe wants it to be $60, Mary wants it to be $65, Jim wants it to be $300 and Jane wants it to be $400, then if they vote, the "median voter theorem" says they will agee that the total bill should be:
   A)   the average of the five numbers given above.
   B) $300
   C) $60
   D) $65
   E)   an intermediate, compromise value such as $175, but not necessarily the average of the five numbers.

4. The *best* example of monopolistic competition is:
   A)   the tobacco industry.
   B)   the restaurant industry.
   C)   the steel industry.
   D)   cable services.

5. In a market with perfect competition the output produced
   A)   is greater than that under a monopolistically competitive market.
   B)   is less than that under a monopolistically competitive market.
   C)   is equal to that under a monopolistically competitive market.

      D)   could be greater than, less than or equal to that under monopolistically competitive market.

6. Large firms can produce at lower unit cost than small firms when:
    A)   there are diseconomies of scale in production.
    B)   name brands are involved.
    C)   celebrities are involved.
    D)   there are economies of scale in production.

7. Only a few brands of soda have been established in the marketplace and the expense of launching a new brand is enormous. For this reason, the market for soda most closely resembles a(n)
    A)   pure monopoly.
    B)   monopolistic competition.
    C)   oligopoly.
   D)   perfectly competition.

Use the following to answer question 8:
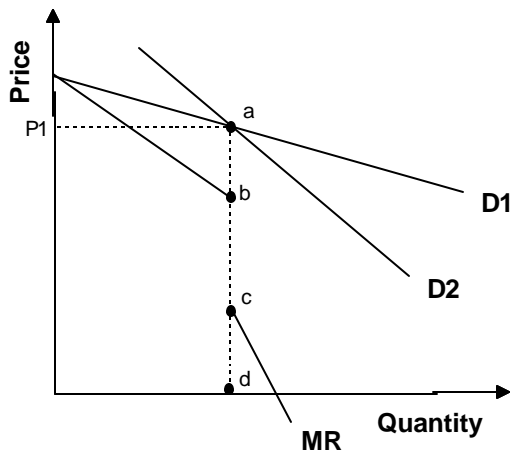
8. Refer to the graph above that shows an oligopolist facing a kinked demand curve. The firm will *not* lower price when marginal costs fluctuate between which two points?
    A)   a and b.
    B)   b and c.
    C)   c and d.
    D)   a and d.

9. **(Repeat your answer on Scantron lines 31 and 32.)** If elasticity is _____ than one a rise in price _____ total revenue.
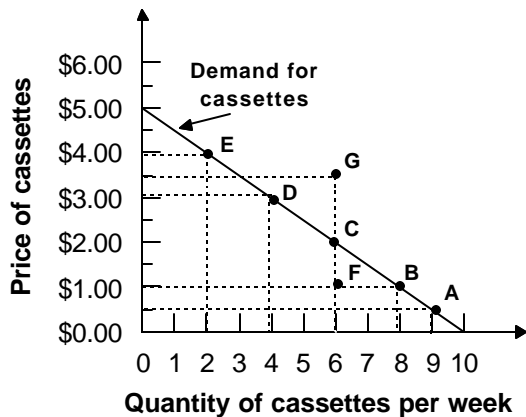   A)   greater; does nothing to
    B)   greater; increases

C)   less; decreases
D)   less; increases

10. Richard Voith has estimated elasticity of demand for commuter rail transportation to be 0.6 in the short-run and 1.6 in the long run. A decrease in rail fares would:
A)   lower revenue in both the short and long run.
B)   raise revenue in both the short and long run.
C)   raise revenue in the short run but lower revenue in the long run.
D)   lower revenue in the short run but raise revenue in the long run.

11. **(Repeat your answer on Scantron lines 33 and 34.)** Cross-price elasticity of demand is defined as the percentage change in _____ divided by the percentage change in _____ of a related good.
A)   quantity, price
B)   quantity, quantity
C)   price, quantity
D)   price, price

12. **(Repeat your answer on Scantron line 35.)** Income elasticity is _____ for normal goods.

A)   positive.
B)   greater than 1.
C)   negative.
D)   equal to 1.

13. **(Repeat your answer on Scantron lines 36 and 37.)** For complements, cross price elasticity of demand is:
A)   negative.
B)   positive.
C)   between zero and one only.
D)   zero.

14. Faculty pay $10 per year for a parking permit, but many complain that they are not able to find a parking place in designated university lots. This suggests that:
A)   parking permits are overpriced.
B)   parking permits are under priced.
C)   faculty incomes are too low.
D)   the university should make parking free.

15. An effective price floor creates:
A)   a shift in the supply curve to the right.
B)   a shift in the demand curve to the left.
C)   a surplus.
D)   a shortage.

Use the following to answer question 16:
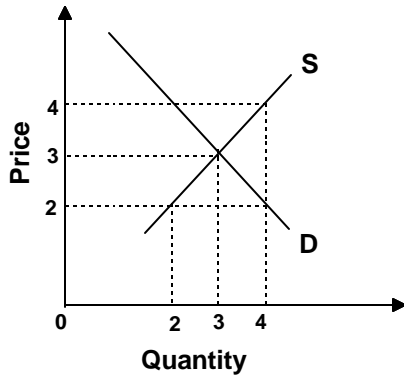
16. Refer to the graph above. A government-imposed price ceiling of $4 will result in:
    A)   an excess supply of 2.
    B)   neither excess supply nor excess demand.
    C)   an excess demand of 2.
    D)   an excess demand of 4.

17. The fallacy of composition refers to the false assumption:
    A)   that what is false for a whole will also be false for the part.
    B)   that what is true for a part will also be true for the whole.
    C)   that other things can be held constant in supply and demand analysis.
    D)   that other things cannot be held constant in supply and demand analysis.

18. **(Repeat your answer on Scantron lines 38 and 39.)** Suzy has just finished her economics exam and must decide whether spend two hours going to the sauna, having a couple of margaritas, or going to a movie. She can do none, all, of any two of these things. The question is, what should she do? Here is the data: The marginal utility of the sauna is 40 utils and the price is $10. The marginal utility of the two margaritas is 36 utils and the price is $9 for two margaritas. The marginal utility of going to the movie is 60 utils and the price is $10. Suzy's marginal utility of a dollar is 5 utils per dollar. Choose the best answer from A) through E).
    A)   Suzy's should go to the sauna and go to the movie, but not drink the margaritas.
    B)   Suzy should go to the movie but should not do either of the other things.
    C)   Suzy should go to the sauna and have the margaritas, but not go to the movie.
    D)   Suzy should do all three things.
    E)   Suzy should drink the margaritas and go to the movie, but not go to the sauna.

Use the following to answer question 19:

Price of cassettes (y-axis)

$6.00, $5.00, $4.00, $3.00, $2.00, $1.00, $0.00

Demand for cassettes

E, G, D, C, F, B, A

0 1 2 3 4 5 6 7 8 9 10

Quantity of cassettes per week

19. **(Repeat your answer on Scantron lines 40, 41 and 42.)** Refer to the graph above. Evaluate statements 1 through 4 and then select the answer from A) through E):

 1) Moving from point E to point F is accompanied by an increase in demand.

 2) Moving from point E to point F is accompanied by a decrease in demand.

 3) Moving from point E to point C is accompanied by no change in demand.

4) Moving from point E to point C is accompanied by an increase in demand.

      A)   Only statements 1 and 4 are true.

      B)   Only statement 1 is true.

      C)   Only statement 4 is true.

      D)   Only statements 2 and 3 are true.

      E)   None of these statements are true because all of these moves actually are changes in quantity demanded, not changes in demand..

20. **(Repeat your answer on Scantron lines 43 and 44.)** Based on what you learned in lecture, consider whether each of the following statements 1 through 7 describes part of the data needed to calculate the number of firms in an industry. Then select the best answer from A through E below.

   1) The value of marginal cost at the lowpoint of the long run marginal cost curve of the typical firm.

   2) The level of output at the lowpoint of the long run marginal cost curve of the typical firm.

   3) The level of output at the lowpoint of the long run average cost curve of the typical firm.

   4) The value of short run marginal cost at the lowpoint of the short run marginal cost curve of the typical firm.

   5) The value of long run average cost at the lowpoint of the long run average cost curve of the typical firm.

   6) Total industry demand at a price equal to the lowpoint of the long run average cost curve of the typical firm.

   7) Total industry demand at a price equal to the lowpoint of the long run marginal cost curve of the typical firm.

      A)   The data in statement 4 is needed but also additional data.

      B)   The data in statements 1, 2 and 7 are all that is needed to make the calculation.

C) The data in statements 3, 5 and 6 are all that is needed to make the calculation.
D) The data in statements 1 and 2 are needed and also additional data.
E) None of this data is needed.

Use the following to answer question 21:

Current prices in two countries, Rahrah and Goofonia

(The money of Goofonia is called the goofus, and the money of Rahrah is called the rah. Prices in each country are expressed in its local currency.)

	Good 1	Good 2	Good 3	Good 4
Rahrah prices (in rahs)	40	20	4	2
Goofonia prices (in goofuses)	40	20	4	6

21. **(Repeat your answer on Scantron lines 45 and 46.)** The numbers in the table represent current prices of four goods in two different nations, Rahrah and Goofonia. Each price is expressed in the local currency of that country, which is the "rah" in Rahrah and the "goofus" in Goofonia. These two countries have never traded with each other, but now they begin to trade. There are no barriers to trade, no transport costs and no tariffs. Here are several statements which may or may not be true. Decide about each statement and then select the best answer below.

   1) All goods will begin to be traded, but only good 4 will be traded from Rahrah to Goofonia.

   2) The first good to be traded from Goofonia to Rahrah definitely will be good 3, followed later by goods 1 and 2.

   3) The final trade-currency ratio after trade has built up to the equilibrium level (measured in units of goofuses per rah) will   definitely be higher than 3.

   4) Goods 1, 2 and 3 will definitely be exported by Goofonia.

   A)   Only statement 1 is correct.
   B)   Only statements 1 and 3 are correct.
   C)   Statements 1 and 4 are correct.
   D)   Only statement 4 is correct.
   E)   Only statement 2 is correct.

22. **(Repeat your answer on Scantron line 47.)** Evaluate the following statements and then choose from A) through E)

   1) The **Wealth of Nations** was written by Milton Freidman.
   2) The **Wealth of Nations** was written by John Maynard Keynes.
   3) The **Wealth of Nations** was published just after the Great Depression.
   4) Adam Smith is a famous economist who wrote in the mid 1800's.

   A)   None of statements 1, 2, 3 or 4 are true.
   B)   Statements 2 and 3 are true.
   C)   Statement 4 is the only statement which is true.
   D)   Only statement 1 is true.
   E)   Only statement 3 is true.

23. **(Repeat your answer on Scantron line 48.)** The law of demand states (everything else unchanged)
    A)   that goods will be supplied to just equal consumer demand.
    B)   that consumer demand will determine the level of firm supply.
    C)   that consumers will buy more of a good if its price rises.
    D)   that consumers will buy more of a good if its price falls.

24. **(Repeat your answer on Scantron lines 49 and 50.)** If there is an increase in the supply of a good,
    A)   the demand for the good will increase.
    B)   the price of the good will fall and the quantity purchased will decrease.
    C)   the price of the good will fall and the quantity purchased will rise.
    D)   the price of the good will rise and the quantity purchased will rise.

25. An increase in the price of Ford cars will have what likely effect in the market for Honda cars?
    A)   It will have no effect.
    B)   The demand for Hondas will increase.
    C)   The demand for Hondas will decrease.
    D)   The supply of Hondas will increase.

26. If rent controls for apartments were established in Austin below the present going rental rates, we could expect
    A)   a shortage in apartments to develop.
    B)   a surplus in apartments to develop.
    C)   equilibrium rents to fall below the rates set by rent control.
    D)   a building boom in new apartments to start.

Answer Key -- Fall03FinalExam

1. D   average total cost (ATC).
   LO: 12-6
   Page: 273
   Source: Old
   Origin: Chapter 12: Monopoly....119
2. A $11.50.
   LO: 12-6
   Page: 273
   Source: Old
   Origin: Chapter 12: Monopoly....125
3. D $65
   LO: *(None)*
   Page: *(None)*
   Source: *(None)*
   Origin: GTA Micro Questions....45
4. B   the restaurant industry.
   LO: 13-2
   Page: 286
   Source: New
   Origin: Chapter 13: Monopolistic Competition.......38
5. A   is greater than that under a monopolistically competitive market.
   LO: 13-3
   Page: 288
   Source: Old
   Origin: Chapter 13: Monopolistic Competition.......48
6. D   there are economies of scale in production.
   LO: 13-3
   Page: 290
   Source: Old
   Origin: Chapter 13: Monopolistic Competition.......90
7. C   oligopoly.
   LO: 13-4
   Page: 291
   Source: Old
   Origin: Chapter 13: Monopolistic Competition.......96
8. B   b and c.
   LO: 13-5
   Page: 294
   Source: New

Origin: Chapter 13: Monopolistic Competition.......116

9. D   less; increases
    LO: 6-5
    Page: 144
    Source: Old
    Origin: Chapter 6: Describing Supply and Demand....134

10. D   lower revenue in the short run but raise revenue in the long run.
    LO: 6-5
    Page: 144
    Source: Old
    Origin: Chapter 6: Describing Supply and Demand....138

11. A   quantity, price
    LO: 6-6
    Page: 148
    Source: Old
    Origin: Chapter 6: Describing Supply and Demand....162

12. A   positive.
    LO: 6-6
    Page: 147
    Source: Old
    Origin: Chapter 6: Describing Supply and Demand....163

13. A   negative.
    LO: 6-6
    Page: 148
    Source: Old
    Origin: Chapter 6: Describing Supply and Demand....173

14. B   parking permits are under priced.
    LO: 5-3
    Page: 110
    Source: Old
    Origin: Chapter 5: Supply and Demand in Practice....73

15. C   a surplus.
    LO: 5-3
    Page: 111
    Source: Old
    Origin: Chapter 5: Supply and Demand in Practice....81

16. B   neither excess supply nor excess demand.
    LO: 5-3
    Page: 111
    Source: Old
    Origin: Chapter 5: Supply and Demand in Practice....84

17. B   that what is true for a part will also be true for the whole.
    LO: 5-5
    Page: 116
    Source: Revised
    Origin: Chapter 5: Supply and Demand in Practice....121
18. B   Suzy should go to the movie but should not do either of the other things.
    LO: *(None)*
    Page: *(None)*
    Source: *(None)*
    Origin: GTA Micro Questions....46
19. D   Only statements 2 and 3 are true.
    LO: *(None)*
    Page: *(None)*
    Source: *(None)*
    Origin: GTA Micro Questions....47
20. C   The data in statements 3, 5 and 6 are all that is needed to make the calculation.
    LO: *(None)*
    Page: *(None)*
    Source: *(None)*
    Origin: GTA Micro Questions....16
21. C   Statements 1 and 4 are correct.
    LO: *(None)*
    Page: *(None)*
    Source: *(None)*
    Origin: GTA Micro Questions....48
22. A   None of statements 1, 2, 3 or 4 are true.
    LO: *(None)*
    Page: *(None)*
    Source: *(None)*
    Origin: GTA Micro Questions....49
23. D   that consumers will buy more of a good if its price falls.
    LO: *(None)*
    Page: *(None)*
    Source: *(None)*
    Origin: ACC Dept Questions....1
24. C   the price of the good will fall and the quantity purchased will rise.
    LO: *(None)*
    Page: *(None)*
    Source: *(None)*
    Origin: ACC Dept Questions....2
25. B   The demand for Hondas will increase.

LO: *(None)*
Page: *(None)*
Source: *(None)*
Origin: ACC Dept Questions....3

26. A   a shortage in apartments to develop.
LO: *(None)*
Page: *(None)*
Source: *(None)*
Origin: ACC Dept Questions....4