AUTUMN 2014
FINAL SOLN.

Q9 Mulligan (Price Index)
Q10 Murphy

GRADE

A 3	B- 10
A- 7	C+ 7
B+ 8	C 4
B 34	D 3

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20150109

<key> ppl have different pty

Q1 • dangerous workers might get compensated other ways { generous health insurance, subsidized housing.

• ppl different types / different preferences.

• safe job might be boring

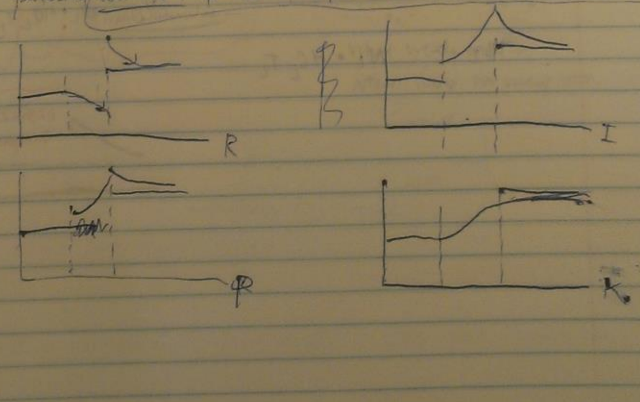
Q2 • ppl who own biz care about some ppl.
altruism - ~~....~~ care who you care about. might not be everyone.
ex maximize supply of donation targeted to homeless / charity.

biz owner might π-max to get most money to donate to causes they care about.

• on D-side: may look good to mkt your product as "social responsible".
can just be π-maximizing
(better way to capture higher segment).
ex fair trade coffee

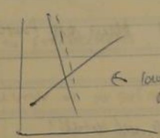
• heterogeneity (have to take into account what competitors are doing).

Q3 • F perfectly rational response to expected future increase in demand.



$R_t = R_t + \left(\frac{1-\delta}{1+r}\right) R_{t+1} \cdots$ ① (decrease in depre.)
② (int. rate)

When worth ?
(1) high $\bar{\text{c}}$ supply
(2) Inelastic demand
(3) high depre.



← large shift up might not translate to much ↑ in Rent.

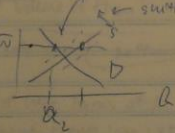
Q4 • "compensating differential story"
ppl who sort themselves into journalism tend to be more liberal.
agency : main cost is labor
(ppl might accept low pay to propagate their opinions).

• what for art/music
→ pay to play just to have their music heard.
paying for the privilege of being able to expressing themselves.

journalist pay by accepting lower pay

Q5 $\boxed{T}$ in undergrad micro.
But have however.

pin down by D curve only
← shifting S not change Q_L



working labor pool

$\boxed{U}$ But there are other dimensions
size of distortion Depend on the size of ppl willing to work.

Q6–Q7 PS

Q6 • 1st degree price discrimination
→ monopolist sells same amount as compet.

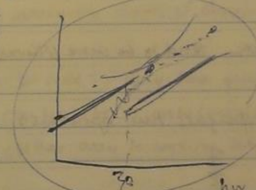
PSS on price discrimination

• efficiency (get further away from mkt outcomes)

2nd, 3rd then get further from competitive outcome.

Q7 • have to work w/ detail!

• quantity tax!



~~[illegible]~~

* Q7, Q1
คล้ายกัน

* discontinuous jump demand schedule.

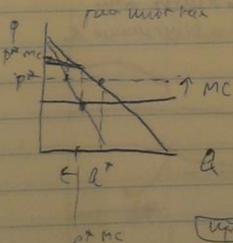
Q8 • variety of ways to fine monopolist.
~~structure~~ give structure of fine!

per unit tax

lump sum tax

• tax won't help if not high enough

3 examples of ineffective fines



$\boxed{\text{up MC}}$

~~[illegible]~~

When p changes a lot,

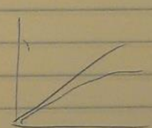
Q9 price index

$\boxed{\text{wgt by Base year}}$ $\dfrac{x_0^A p_1^A + x_0^B p_1^B}{x_0^A p_0^A + x_0^B p_0^B}$ / $\boxed{\text{wgt by Final year}}$ $\dfrac{x_1^A p_1^A + x_1^B p_1^B}{x_1^A p_0^A + x_1^B p_0^B}$

$\boxed{U}$ substitution drives distortion in price indices.

if p, income change same rate ⇒ no substitution b/w good.

⇒ P index do good job at measuring well-being.



cost curve
concave
b

base year
overstate amount of inflation.

final year
understate ~
(∵ put ~~little~~ on good that p↑ a lot)

Q.10 tech progress ~ value of firm — can also define as value of K that the firm owns

define? (if firm owns capital they also own all future rents paid for that capital)

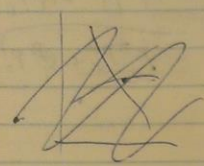
- inventions of new types of K
  ⇒ incumbent firms lose out
  value old firms ↓ value new entrants ↑
- invention on the extensive margin

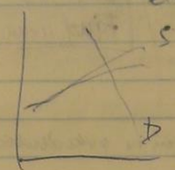
innovation on the extensive margin

innovation within incumbent firms.

- knowledge easily diffused? → benefit entrants
  (easily spillover → hard to capture value from that innovation)

depend on { where innovation shows up (near eqm?) / elasticity of D.





marginal marginal cost