Price Theory I TFUs
Practice Set 12

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1. If the sum (across goods) of all uncompensated own price elasticities is -12, then the sum of all compensated own price elasticities must be -13. (3.1.10, Core 2006)

2. A breakout of mad cow disease that makes it riskier to consume beef would reduce the consumption of beef more by persons who initially consumed relatively large quantities of beef. (Core 2005)

3. In a cross section of firms in a competitive market, more productive firms should have higher profit rates (measured as profits/sales). (4.2.9, Core 2005)

4. A rise in the wage rate of employees may raise the profits of firms in a competitive industry in the short run—before the amount of capital adjusts—but not in a monopolistic industry either in the short or long run. (4.5.7, Core 2008)

5. A maximum price control on an input used in industry X will lower the market price of X. (4.5.9, Core 2001)

6. Technological progress that allows each firm in a competitive industry to produce twice as much output from any given level of inputs will reduce prices in the industry more in the long run than in the short run (assuming capital is fixed in the short run) as long as output demand is elastic. (4.7.9, Core 2007)

7. With constant returns to scale, the rate of growth of labor productivity will exceed the rate of growth of TFP as long as the capital labor ratio is rising. (4.7.10, Core 2006)

8. If the Justice Department allows two firms with market shares of 20% and 30% to merge, we should be more concerned if the combined share of the merged firm is 60% in two years rather than 45%. (4.9.2)

9. If the market rental rate for new computers is $800 per year and the purchase price for new computers is $2,000, then individuals expect the price of computers to decline over time if the market interest rate is 5% and physical depreciation is 25% per year. (4.22.4, Final 1998)