

1 - Economists believe that trade

A) causes some to lose while others win.

B) unjustly benefits the privileged.

C) causes outsourcing of jobs, which lowers the standard of living.

D) is a win-win proposition.

Under adequate terms of trade, both parties should have better availability of goods than they can produce on their own.

2 - An example of a direct negative incentive is:

A) providing a commission for sales.

B) awarding a promotion for hard work.

C) threatening to fire those who do not perform well.

D) providing an orientation for new employees.

This fits the definition of a direct negative incentive.

3 - Legislation that requires children under age two to sit in infant seats on airplanes has made air travel safer but also more expensive for families. Which of the following is an unintended consequence of the infant safety policy?

A) Airlines have nowhere to store all the child seats and strollers so many flights are delayed.

B) Airplanes can only show G-rated movies.

C) Many families with infants now choose to drive instead of fly.

D) With all the infants in diapers on the flights, the smell is terrible.

C) is the most direct (negative) result. The airline unintendedly lost a customer base. The other answer choices are merely inconveniences to other passengers.

4 - Which of these is NOT an unintended consequence of a binding minimum wage?

A) unemployment

B) firms replacing low-skilled jobs with technology

C) firms relocating to other countries (or states) with lower wages

D) Longer hours for workers

This is false. What actually happens is unemployment + those who keep jobs, may lose work hours since labor costs increase. Refer to a binding price floor graph.

5. Which curve is the most ELASTIC?

A) Short run demand

B) Long run demand

C) Immediate run demand

D) The demand curve can never be elastic

Time allows for consumers to find substitutes.

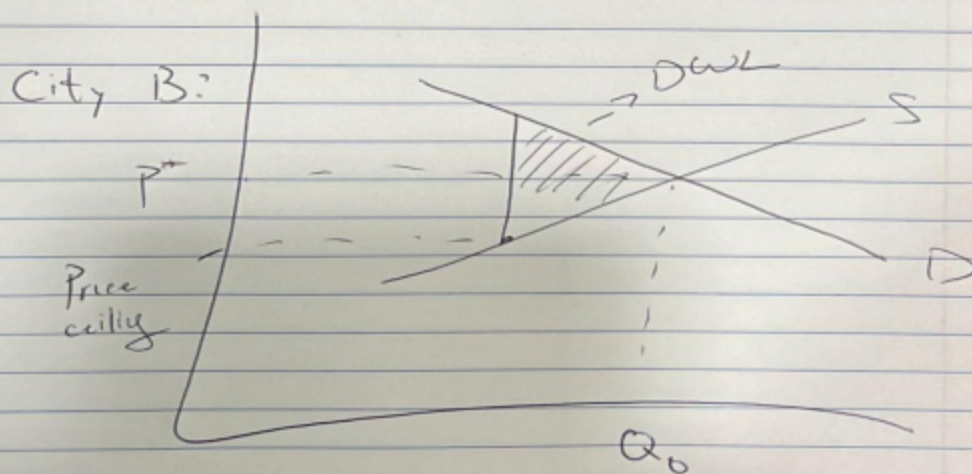
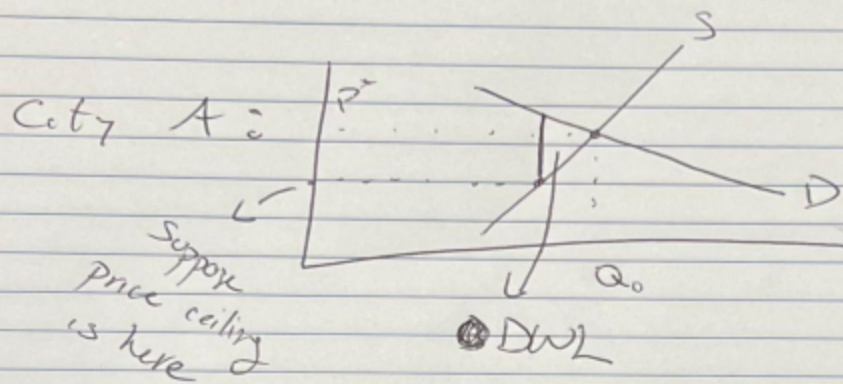
6. HEB reduces the price of organic milk from \$8 to \$6. Sales increased from 2000 units to 3000 units. Calculate total revenues before and after the increase in price. Is the price elasticity of demand elastic, unitary or inelastic?

Elastic. Revenues increased

despite the price drop. (original revenue = $8 \times 2000 = \$16,000$; new revenue = $6 \times 3000 = \$18,000$)

7. Compare City A and City B. Suppose that even though the elasticity of demand for housing is the same in both cities, the elasticity of supply for housing is more inelastic in City A than in City B. If a rent ceiling is imposed in both cities, in what city will the resulting deadweight loss be the greatest? Assume that the initial equilibrium rent is the same in both cities and that the rent ceiling is effective in the sense that it is set below the initial equilibrium rent. Give an illustration of this situation along with your explanation

City A supply is more INELASTIC than city B



* Takeaway: \uparrow Elasticity $\rightarrow \uparrow$ DWL
 \downarrow elasticity $\rightarrow \downarrow$ DWL

8. A tax on which of these goods/services will create the least deadweight loss?

- A) burritos
- B) Pepsi
- C) dynamite sushi rolls

D) getting cavities filled at the dentist

D) is the answer choice w/o substitutes, so this good's demand must be more inelastic.

9. The current market price for cucumbers is \$20 each, and Walmart implements the legal price ceiling of \$25. This market will:

- a. Create a deadweight loss
- b. Create a shortage
- c. Not change**
- d. Decrease the quality of goods

Market equilibrium price is below this threshold.

10 - Which of the following would experience a tragedy of the commons?

- a. A Fishing Pond**
- b. Aviator Sunglasses
- c. Sunlight
- d. Cable Subscription

Fish are not as renewable sources as the others.

11 - Identify what type of goods the following are:

- A. Pease Park Common Good. **common**
- B. A Taylor Swift sweatshirt Private. **private**
- C. Fraternity membership Club. **club**
- D. Pretty clouds Public. **public**

A park is openly accessible, but as more people use it at once, the crowdedness may reduce the usability of others. A sweater is owned by one person. A frat typically costs to be in. Clouds are free for anyone to look at, and its utility doesn't depend on how many people "use" it.

12 - Which of the following is FALSE?

- A. A price floor set above the equilibrium is binding
- B. A price ceiling set below the equilibrium is not binding**
- C. The equilibrium is important when determining whether price controls are binding
- D. Rent control is an example of a price ceiling

A price ceiling below the equilibrium IS BINDING.

13 - Which of the following is an example of an implicit cost?

- a. Wage Expenses
- b. Opportunity Costs for workers**

- c. Inventory Purchases
- d. Rent

Workers, by choosing to work somewhere, implicitly chose not to work elsewhere or do anything else, etc.

14 - Determine the following based on this scenario:

Georgia used to work as a geologist, and she would make \$5,000 a month. She now owns and runs Georgia's Green Plants. In the month of April this year, Georgia spent \$3,000 on inventories, and \$500 on utilities (electricity, water, etc.). Her labor costs were \$2,000. She owns and uses a storefront for her shop that she previously rented out for \$1,500.. Lastly, Georgia brought in \$16,000 in revenue in April.

- A. What are the explicit and implicit costs?
 - a. **Explicit: \$5,500 forgone salary + forgone rents**
 - b. **Implicit: \$6,500 inventory + utilities + labor costs**
 - c. **Total: \$12,000**
- B. What is the accounting profit? **10,500 revenue - explicit costs**
- C. What is the economic profit? **4,000 revenue - explicit - implicit costs**

15 - In this table, diminishing marginal product begins:

Workers	Total Product
1	2
2	4
3	7
4	9
5	10

- a. After the 1st worker
- b. After the 3rd worker**
- c. After the 4th worker
- d. After the 2nd worker

Marginal products after: 1-2 workers = 2; 2-3 workers=3; 3-4 workers = 2

16 - If there is a fixed cost of \$4,000, a variable cost of \$500, and a quantity produced of 8 , what is the AFC? **\$500 ($4,000/8 = 500$)**

17 - In the economies of scale model, the curved line represents:

- a. Short Term Marginal Cost
- b. Variable Costs
- c. Long Run Average Total Costs**
- d. Fixed Costs

Refer to the economies of scale graph

18 - Which of the following equations is incorrect?

- a. $TFC + TVC = AFC$**
- b. $ATC = TC / Q$
- c. $MC = \text{change in } TC / \text{Change in } Q$
- d. $ATC = AVC + AFC$

TFC is total fixed costs; TVC is total variable costs. These two are all total costs, they can't sum up to average fixed costs (a smaller value)

19 - In comparison to a competitive market, monopolies:

- a. Produce more at a higher price
- b. Produce less at a higher price**
- c. Produce more at a lower price
- d. Produce less at a lower price

Monopolies have larger market power.

20 - Pizza Press charges \$4 for a cheese pizza and \$5 for a cheese and pepperoni pizza. Is this price discrimination?

- a. Yes
- b. No**

These are different products.

21 - Tracy buys tickets for the Big 12 Championship when they come out for \$500, and Rachel buys tickets with the exact same market value for \$1,500 the day before the game. Is this price discrimination?

- a. Yes**
- b. No

Same product. Different prices result from time sensitivity.

22 - Which of the following is an example of perfect price discrimination?

- a. Veteran discounts at a restaurant
- b. Movie theaters charging less for children
- c. Happy hour at a bar
- d. **Dance teacher charging exactly below their students' willingness to pay for each lesson**

Refer to definition of 1st, 2nd, 3rd degree price discrimination.

23 - Your little brother gets into a play for free because he's under 12 years old, but you have to pay. This is an example of:

- a. 1st degree price discrimination
- b. 2nd degree price discrimination
- c. **3rd degree price discrimination**
- d. This is not an example of price discrimination

Refer to definition of 1st, 2nd, 3rd degree price discrimination.

24 - Which of the following best matches the definition of: The outcome where neither player has incentive to change their strategy.

- a. Non-Dominant Strategy
- b. Pareto Optimal
- c. **Nash Equilibrium**
- d. None of the above

Refer to definition of nash equilibrium

25 - Which of the following best matches the definition of: The outcome where neither player can deviate from their strategy without hurting the other player

- a. Non-Dominant Strategy
- b. **Pareto Optimal**
- c. Nash Equilibrium
- d. None of the above

Refer to definition of pareto optimal

26 - Consider the table below, which shows seven potential customers, each interested in bungee jumping. How much additional profit will the firm make if it price discriminates by charging two prices? The MC is \$0

Customer	Willingness to pay	Military ID?
Alex	400	no
Brianna	225	no
Carlos	194	yes
Diana	120	yes
Emelia	90	yes
Fabian	65	no
Gabriel	35	yes

Without price discrimination, the profit-maximizing price is \$194, where there are 3 customers and profits = $194 \times 3 = 582$.

With price discrimination, separate customers into two groups: military and non-military.
Military optimal price is: 90, with 3 customers, and profit = $90 \times 3 = 270$
Non-military optimal price is: 225, with 2 customers and profit is = $225 \times 2 = 450$. Total price discrimination profit is = $270 + 450 = 720$

Price discrimination yields a $720 - 582 = \$138$ larger profit.

27. Refer to the following MU table:

Mangoes		MU/Pm	Pineapple		MU/Pp
	MUm			MUp	
1	20	20	1	24	12
2	15	15	2	18	9
3	10	10	3	12	6
4	5	5	4	6	3

You have a budget of \$10. Mangoes cost \$1 and Pineapples cost \$2. How many of each should you buy to maximize total utility?

Refer to the utility/dollar spent columns (3rd and 6th). Consumer opts to buy mango 1 ($20 > 12$), then mango 2 ($15 > 12$), then pineapple 1 ($10 < 12$), then mango 3, ($10 > 9$), then pineapple 2 ($5 < 9$), and then pineapple 3 ($5 < 6$), and finally mango 4 ($5 > 3$). At this point, consumer has no more money left. The bundle is 4 mangoes and 3 pineapples.

28. Identify whether each fallacy is Gambler's or Hot Hand.

Answers: G,G,H,H

Gambler's hand is the belief a recently less occurred event is now more probable to happen. Hot hand fallacy is where a winning streak is believed to continue even if odds are random.

#	Items	Gambler's or Hot Hand?
1	refusing to select lotto numbers that were in the last winning drawing	
2	rushing to buy a stock merely because its price is falling	
3	rushing to buy a stock merely because it is doing well	
4	An executive taking business risks they normally would not have after winning an award for having the highest returns.	

29 - Trade agreements encourage countries to curtail tariffs so that goods can flow across international boundaries without restrictions. Using the following payoffs determine the Nash equilibrium for these two countries?

		China	
		Low tariffs	High Tariffs
United States	Low tariffs	China gains <u>\$50 billion</u> U.S. gains <u>\$50 billion</u>	China gains <u>\$100 billion</u> U.S. gains <u>\$10 billion</u>
	High tariffs	China gains <u>\$10 billion</u> U.S. gains <u>\$100 billion</u>	China gains <u>\$25 billion</u> U.S. gains <u>\$25 billion</u>

Both countries' dominant strategies are high tariffs. So, nash equilibrium is at high, high, with each country gaining \$25 billion.

30 - Draw indifference curves and direction of increasing utility where the consumer:

- Likes both goods
- Likes good on x axis; dislikes good on y axis
- Dislikes good on x axis; likes good on y axis
- Dislikes both goods

