

Professor: M. Rush

ECO 2023

FALL 2017

## FINAL EXAM

This test is governed by UF's academic honesty code. It is intended to have 30 multiple choice questions. Please check to be sure your copy has all 30. Chose the best answer for each question.

Unless you are specifically told otherwise, on this test do not assume that demand or supply is either perfectly elastic or perfectly inelastic.

On the bubble sheet, please enter:

1. Your name and initials
2. Your UF ID number
3. Test Form: A
4. Sign your name on the bubble sheet.

Check that the test form and UF ID number you bubbled-in are correct now. Also check to be sure your name is correct—do it now. I investigated the rumor that the ability to correctly record these had been mastered by a few students at FSU. This rumor turned out to be false. But, the rumor that an accounting major and a journalism major did successfully record these on a test is true. These students have since been bronzed and are on display outside their respective colleges to serve as an inspiration for all other accounting and journalism students.

**CHECK YOUR NAME AND UF ID NUMBER. IF YOU GET ANY OF THESE WRONG, YOUR TEST MIGHT NOT BE GRADED AND IF IT IS GRADED, YOU WILL LOSE 9 POINTS!**

### **TURN OFF ALL CELL PHONES AND OTHER COMMUNICATION DEVICES**

You may not use a cell phone or any other sort of device that allows for communication as your calculator.

I have become increasingly concerned that some students are at a real disadvantage because they are unwilling to ask questions during the exam while others ask a lot of questions. Hence, to level the playing field, I have decided to eliminate all questions during the test. I don't like this policy, but it seems the fairest policy.

*Do not ask questions of me or the TA's; in the interest of fairness I have instructed them not to answer any questions during the exam.*

You will have one hour (60 minutes) to complete the exam *and* bubble in all your answers. When the TAs say that time is up, you *must* hand in your exam. We will *not* give extra time to finish bubbling in the answers, so be sure you are done when the 60 minutes are up. Of course, you may hand in your test at any time before the 60 minutes are up.

An answer key will be posted on the class web page, probably tomorrow.  
The test scores will be on class web page within a few days.

Once you see the answer key, you might have a question about why one answer is right and another is wrong. For these questions, email me at markrush@ufl.edu Do NOT email the grader about these questions! After the scores are posted, if you think your posted score is incorrect, then *email the grader at* eco2023.grader@clas.ufl.edu If you email me about your test score, I will not forward the email nor respond to you—you *MUST* email the grader. You have one week after the curved score is posted to request a grade check. After a week, the score will not be changed.

- 1) Because each perfectly competitive firm sells a product identical to that of the other firms,
  - A) each firm will try to cut prices to increase its market share.
  - B) each firm's output is a perfect substitute for the output of any other firm.
  - C) in the long run, each firm can expect to earn some economic profit.
  - D) the demand for each firm's product is perfectly inelastic.
  - E) None of the above answers are correct.
- 2) Economic profit sends a signal to entrepreneurs by telling them in what market
  - A) price exceeds marginal cost.
  - B) there are many buyers and many sellers.
  - C) there must be a barrier to entry.
  - D) an above-average profit can be earned.
- 3) At Sweet Dreams, a local ice cream parlor, when the price of a half-gallon of chocolate ice cream was lowered by fifty cents per half-gallon, total revenue from the sale of half-gallons of chocolate ice cream decreased. This result indicates that
  - A) there are more people who like vanilla ice cream than there are people who like chocolate ice cream.
  - B) the demand for chocolate ice cream is inelastic.
  - C) the demand for chocolate ice cream is elastic.
  - D) chocolate ice cream is an inferior good.
  - E) None of the above answers are correct.
- 4) If people's preferences change so they like bottled water more than before and simultaneously more firms enter the bottled water market, the equilibrium price of bottled water \_\_\_\_ and the equilibrium quantity \_\_\_\_\_.
  - A) might rise, fall, or not change; increases
  - B) falls; might increase, decrease, or not change
  - C) might rise, fall, or not change; might increase, decrease or not change
  - D) rises; increases
  - E) None of the above answers are correct.

Output (frijoles)	Total cost (dollars)
0	1,000
1,000	3,000
3,000	5,000

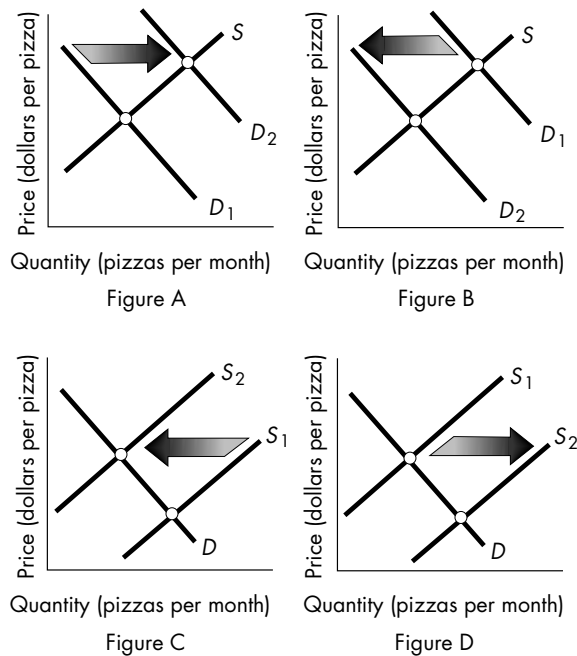
- 5) The above table gives some production and cost information for Knight's Inn, a restaurant that sells Fiery Frijoles. What is the average variable cost of producing 1,000 frijoles?
  - A) \$1.00
  - B) \$2.00
  - C) \$3.00
  - D) More information is needed to determine the answer
  - E) There is enough information to determine the answer but none of the answers are correct.

- 6) If a natural monopoly is unregulated and is allowed to maximize its profit, the firm
- A) earns an economic profit and there is no deadweight loss.
  - B) earns zero economic profit and there is no deadweight loss.
  - C) earns zero economic profit and there is a deadweight loss.
  - D) earns an economic profit and there is a deadweight loss.
  - E) incurs an economic loss, and there is no deadweight loss.

		Target	
		Set low prices	Set high prices
Wal-Mart	Set low prices	T: \$2 million W: \$5 million	T: \$4 million W: \$7 million
	Set high prices	T: \$5 million W: \$2 million	T: \$7 million W: \$12 million

- 7) Target and Wal-Mart must decide whether to lower their prices, based on the potential economic profits shown in the table above. (A "T" indicates Target's profit and a "W" indicates Wal-mart's profit.) Who has a dominant strategy?
- A) Wal-Mart has a dominant strategy but Target does not.
  - B) Target has a dominant strategy but Wal-Mart does not.
  - C) Both Wal-Mart and Target have dominant strategies.
  - D) Neither Wal-Mart nor Target has a dominant strategy.
- 8) Suppose the unemployment in an economy falls. The decrease in the amount of unemployment
- A) shifts the production possibility frontier outward.
  - B) moves the economy's production point closer to the production possibility frontier.
  - C) moves the economy's production point along the production possibility frontier.
  - D) moves the economy's production point further away from the production possibility frontier.
- 9) Jane's Garage Cleaning is a monopoly that currently cleans 40 garages a week. Jane's marginal cost is \$35, her price is \$40, and her average total cost is \$40. Jane
- A) is not maximizing her profit and is making an economic profit.
  - B) is not maximizing her profit and is making a normal profit.
  - C) might be maximizing her profit and is making a normal profit.
  - D) might be maximizing her profit and is incurring an economic loss.
  - E) None of the above answers are correct.
- 10) In a private, unregulated market, if production of the good has an external benefit, then efficiency can be achieved by
- A) setting a production quota equal to the efficient quantity.
  - B) creating a monopoly in the market.
  - C) the government paying a subsidy to suppliers equal to the marginal external benefit.
  - D) the government imposing a tax on the good equal to the marginal external benefit.
  - E) None of the above answers are correct because the market will produce the efficient amount with no government intervention.

- 11) If the demand for a good is perfectly elastic, then imposing a tax on the producers of the good will
- A) raise the price paid by consumers by the full amount of the tax.
  - B) result in zero consumer surplus.
  - C) not raise the price paid by consumers.
  - D) raise no tax revenue.
- 12) The number of people who think keeping fish in an aquarium is fun increases. As a result, the equilibrium price of a tropical fish \_\_\_\_ and the equilibrium quantity \_\_\_\_.
- A) rises; increases
  - B) rises; decreases
  - C) falls; decreases
  - D) falls; increases
  - E) does not change; increases
- 13) The market for bricks is perfectly competitive. If the demand for bricks increases so that the price of bricks rises, then in the short run an individual brick producer \_\_\_\_ its production of bricks and \_\_\_\_.
- A) increases; incurs an economic loss
  - B) increases; makes an economic profit
  - C) does not change; makes an economic profit
  - D) decreases; makes an economic profit
  - E) decreases; incurs an economic loss
- 14) If a firm charges a customer different prices for different units of the product, then the firm is
- A) a natural monopoly.
  - B) price discriminating.
  - C) perfectly competitive.
  - D) None of the above answers are correct.
- 15) Currently the United States imports sugar but imposes an import quota on the amount of sugar that may be imported. Suppose the U.S. government changes the quota to further reduce the amount of sugar that may be imported. This change \_\_\_\_ the consumer surplus of U.S. sugar consumers, \_\_\_\_ the producer surplus of U.S. sugar producers, and \_\_\_\_ U.S. total surplus.
- A) increases; increases; increases
  - B) increases; decreases; decreases
  - C) decreases; increases; increases
  - D) decreases; increases; decreases
  - E) None of the above are correct.
- 16) A perfectly competitive firm finds that its marginal cost is less than its marginal revenue. In order to increase its profit, the firm will
- A) raise its price and decrease its production.
  - B) lower its price and increase its production.
  - C) raise its price and increase its production.
  - D) not change its price and increase its production.
  - E) continue to produce this level of output because any change will lower its profit.



- 17) The above figure shows the market for pizza. Which figure shows the effect of an increase in the number of pizza restaurants?
- A) Figure A.
  - B) Figure B.
  - C) Figure C.
  - D) Figure D.
- 18) *Only if* the income effect is greater than the substitution effect, then an increase in the wage rate
- A) increases the quantity of labor supplied.
  - B) decreases the quantity of labor supplied.
  - C) shifts the supply of labor curve to the left.
  - D) increases the quantity of labor demanded.
  - E) increases the equilibrium quantity of labor.
- 19) Yachts are a normal good and people's incomes rise. As a result, the equilibrium price of a yacht \_\_\_\_ and the equilibrium quantity \_\_\_\_.
- A) rises; increases
  - B) rises; decreases
  - C) falls; increases
  - D) falls; decreases
- 20) In order for a tax to completely eliminate the deadweight loss from pollution, the tax must be set equal to the
- A) marginal private cost.
  - B) marginal external cost.
  - C) marginal social cost.
  - D) marginal external benefit.
  - E) marginal benefit of polluting.

		Target	
		Set low prices	Set high prices
Walmart	Set low prices	T: \$9 million W: \$3 million	T: \$4 million W: \$4 million
	Set high prices	T: \$5 million W: \$8 million	T: \$3 million W: \$6 million

- 21) Target and Wal-Mart must decide whether to lower their prices, based on the potential economic profits shown in the table above. (A "T" indicates Target's profit and a "W" indicates Wal-mart's profit.) Who has a dominant strategy?
- Walmart has a dominant strategy but Target does not.
  - Target has a dominant strategy but Walmart does not.
  - Both Walmart and Target have dominant strategies.
  - Neither Walmart nor Target has a dominant strategy
- 22) After the sugar substitute saccharin was found to cause cancer in laboratory mice, its price dropped dramatically. This change in the price was because
- the supply of saccharin decreased.
  - the demand for saccharin decreased.
  - the government ordered the price reduction.
  - saccharin producers felt sorry for their past customers and were making an honest attempt to compensate them
- 23) If the income elasticity of demand for airline travel is positive and people's incomes increase, then the equilibrium price of airline travel \_\_\_\_ and the equilibrium quantity of airline travel \_\_\_\_.
- rises; increases
  - rises; decreases
  - falls; increases
  - might rise, fall, or not change; increases
  - falls; decreases
- 24) Compared to a perfectly competitive market with the same cost and demand, a single-price monopolist produces
- more output and has a higher price.
  - less output and has a lower price.
  - more output and has a lower price.
  - less output and has a higher price.
- 25) In monopolistic competition, the presence of a large number of firms making a differentiated product means that
- each firm can determine what price to charge for its particular product.
  - each firm must charge the same price.
  - the price is established by collusive behavior.
  - each firm must produce the same quantity.

- 26) If one person's consumption of a good does not decrease the amount available for consumption by another person, the good is
- A) rival.
  - B) excludable.
  - C) pure.
  - D) nonexcludable.
  - E) None of the above answers are correct.
- 27) Hot dogs and hamburgers are substitutes for consumers. A decrease in the price of a hamburger \_\_\_\_ the equilibrium price of a hot dog and \_\_\_\_ the equilibrium quantity of hot dogs.
- A) raises; increases
  - B) raises; decreases
  - C) lowers; increases
  - D) might increase, decrease, or not change; increases
  - E) lowers; decreases
- 28) If the Lorenz curve for income moves farther away from the 45° line, then the
- A) distribution of income has become more unequal.
  - B) distribution of income has become more equal.
  - C) median household income has increased.
  - D) median household income has decreased.
  - E) mean (average) household income has increased.
- 29) Which of the following is true for a profit-maximizing single-price monopoly?
- i.  $P > MC$
  - ii.  $P > MR$
  - iii.  $MR = MC$
- A) ii only.
  - B) iii only.
  - C) ii and iii only.
  - D) i and ii only.
  - E) i, ii, and iii.
- 30) TO GET CREDIT FOR THIS PROBLEM, *BUBBLE IN A AS THE ANSWER*. Also, keep in mind that you are to email the grader (within 1 week after the test scores are posted) if you have a question about your test score and you are to email me if you have a question about a question, then the director is so stupid that
- A) he took his dog to Pet Smart to get it an IQ test.
  - A) he went to the library to find Facebook.
  - A) when he asked me "What is the letter after X?" and I said "Y" he said "cause I want to know."
  - A) he ordered a cheeseburger from McDonald's and said "Hold the cheese."