

Professor: M. Rush

ECO 2023

SPRING 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. Choose 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. Form code: A
4. Sign your name on the bubble sheet.

Check if the form code 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 FORM CODE, 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.

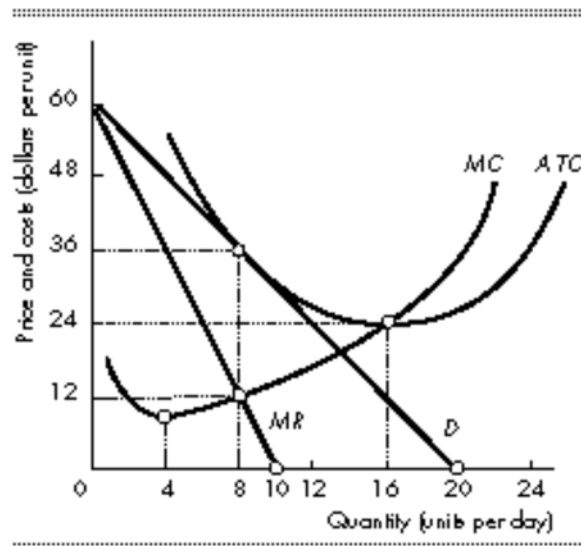
- 1) People discover that eating fish is good for their health. As a result, the equilibrium price of fish ____ and the equilibrium quantity ____.
 - A) rises; increases
 - B) rises; decreases
 - C) falls; decreases
 - D) falls; increases
 - E) None of the above answers are correct.
- 2) Pollution occurs as a result of the production of lumber. If the lumber market were unregulated, there would be
 - A) overproduction of lumber compared to the efficient amount.
 - B) underproduction of lumber compared to the efficient amount.
 - C) sometimes overproduction and sometimes underproduction of lumber compared to the efficient amount.
 - D) an external benefit to producing lumber.
- 3) A monopolist maximizes its profit by producing a level of output so that its
 - A) total revenue equals its total cost.
 - B) marginal revenue equals its marginal cost.
 - C) marginal revenue equals zero.
 - D) price exceeds its average total cost.
 - E) price equals its marginal cost.
- 4) If demand for the firm's output increases so that the price and marginal revenue rise, then
 - A) the firm's demand for labor will decrease.
 - B) the firm's demand for labor will increase.
 - C) the firm's demand for labor will remain unchanged.
 - D) it is impossible to determine what happens to the firm's demand for labor without more information.
- 5) How has the distribution of income in the United States changed between 1929 and the present?
 - A) Year after year, the distribution of income has generally become more equal.
 - B) Year after year, the distribution of income has generally become more unequal.
 - C) The distribution of income generally became more equal until about 1979 and since then generally became more unequal.
 - D) The distribution of income generally became more unequal until about 1979 and since then generally became more equal.

- 6) A deadweight loss occurs whenever
- A) the total benefit of a good does not equal its total cost.
 - B) the marginal social benefit of a good does not equal its marginal social cost.
 - C) there is no producer surplus.
 - D) there is no consumer surplus.
 - E) None of the above answers are correct.
- 7) Georgine buys more sweaters when her income increases. Based on this fact, for Georgine, sweaters are _____ good.
- A) a substitute
 - B) a complement
 - C) an inferior
 - D) a normal

		Target	
		Set low prices	Set high prices
Walmart	Set low prices	T: \$1 million W: \$4 million	T: \$4 million W: \$3 million
	Set high prices	T: \$8 million W: \$7 million	T: \$6 million W: \$8 million

- 8) 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) Walmart has a dominant strategy but Target does not.
 - B) Target has a dominant strategy but Walmart does not.
 - C) Both Walmart and Target have dominant strategies.
 - D) Neither Walmart nor Target has a dominant strategy
 - E) More information is needed to determine if either Target or Walmart has a dominant strategy.
- 9) Suppose that Coke and Pepsi, two soft drink manufacturers, agree to charge the same prices for their soft drinks. This practice would
- A) always be legal under the antitrust laws.
 - B) be legal if the Herfindahl-Hirschman index for the soft drink market is less than 1,000 but illegal if it exceeds 1,000.
 - C) be legal if the Herfindahl-Hirschman index for the soft drink market is less than 1,700 but illegal if it exceeds 1,700.
 - D) be legal as long as the firms had a cost justification for setting prices.
 - E) always be illegal under the antitrust laws.

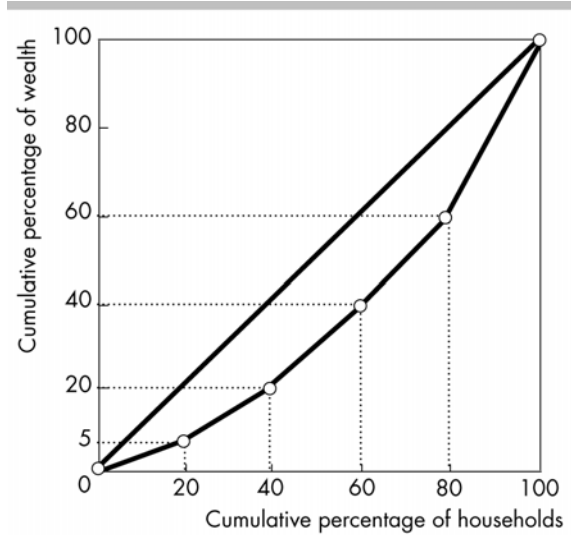
- 10) Suppose the cotton used to produce cotton clothing rises in price. As a result, the equilibrium price of cotton clothing ____ and the equilibrium quantity ____.
- A) rises; increases
 - B) rises; decreases
 - C) falls; increases
 - D) rises; might increase, decrease, or not change
 - E) falls; decreases
- 11) According to the Coase theorem, for efficiency to occur, property rights
- A) must be defined, but it does not matter who gets them.
 - B) must be defined, but it is crucial as to who gets them.
 - C) need not be defined as long as there are no transactions costs present.
 - D) need to be defined by the government to avoid producers from exploiting high transactions costs.



- 12) In the above figure, the firm will produce ____ and set a price of ____.
- A) 8 units per day; \$12
 - B) 8 units per day; \$36
 - C) 16 units per day; \$24
 - D) 4 units per day; less than \$12
 - E) None of the above are correct
- 13) Even though they may be harmed riding bicycles, suppose more people decide they want to ride a bicycle. As a result, the price of a bicycle ____ and the quantity ____.
- A) rises; increases
 - B) rises; decreases
 - C) falls; increases
 - D) falls; decreases

- 14) In the long run, a firm in perfect competition ____ make an economic profit and in the long run, a monopoly firm ____ make an economic profit.

A) can; can
 B) can; cannot
 C) cannot; can
 D) cannot; cannot



- 15) The above figure shows the Lorenz curve for wealth for the nation of Rusha. The wealthiest 40 percent of the population own what percent of wealth?

A) 20 percent
 B) 40 percent
 C) 60 percent
 D) 80 percent
 E) None of the above are correct.

- 16) The supply of roses is unit elastic and the demand for roses is elastic. If a tax is imposed on roses, who pays a larger part of the tax?

A) Demanders pay a larger part of the tax.
 B) Suppliers pay a larger part of the tax.
 C) Demanders and suppliers pay equal amounts of the tax.
 D) More information is needed about whether the tax is imposed on buyers or sellers.
 E) More information is needed about the magnitude of the tax to determine if demanders or suppliers pay a larger part of a tax.

- 17) Potatoes used to make potato chips falls in price. Simultaneously people's incomes rise and potato chips are a normal good. As a result, the equilibrium price of a bag of potato chips ____ and the equilibrium quantity ____.
- A) rises; decreases
 - B) probably changes but in an ambiguous direction; increases
 - C) falls; increases
 - D) probably changes but in an ambiguous direction; probably changes but in an ambiguous direction
 - E) falls; probably changes but in an ambiguous direction
- 18) A single-price monopoly can sell 2 units for \$8.50 per unit. In order to sell 3 units, the price must be \$8.00 per unit. The marginal revenue from selling the third unit is
- A) \$24.00.
 - B) \$8.50.
 - C) \$7.00.
 - D) \$17.00.
 - E) None of the above answers are correct.
- 19) Cod in the ocean are rival and nonexcludable. The unregulated, competitive market equilibrium quantity will be ____ the efficient quantity.
- A) more than
 - B) equal to
 - C) less than
 - D) More information is needed to answer the question.
- 20) To eliminate the inefficiency resulting from an external cost, the government can impose a tax on producers that is equal to the
- A) *MSB*.
 - B) *MC*.
 - C) *MB*.
 - D) *MSC*.
 - E) marginal external cost
- 21) Median U.S. household income is closest to
- A) \$15,000.
 - B) \$128,000.
 - C) \$30,000.
 - D) \$93,000.
 - E) \$55,000.
- 22) An oligopolist cheats on a collusive price-fixing agreement by setting
- A) a lower price and producing less output than agreed.
 - B) a higher price and producing more output than agreed.
 - C) a higher price and producing less output than agreed.
 - D) a lower price and producing more output than agreed.

- 23) A monopolistically competitive industry has
- A) significant barriers to entry.
 - B) differentiated products.
 - C) mutually dependent firms.
 - D) a small of firms.
- 24) Which of the following would NOT shift the demand curve for turkey?
- A) An increase in income.
 - B) A decrease in the price of ham.
 - C) A change in the price of a turkey.
 - D) A change in the number of people who like turkey.
 - E) None of the above answers are correct because they all shift the demand curve for turkey.
- 25) Sarah's Garage Cleaning is a monopoly that currently cleans 40 garages a week. Sarah's marginal cost is \$35, her marginal revenue is \$40, and her average total cost is \$40. Sarah is
- A) maximizing her profit and is earning an economic profit.
 - B) not maximizing her profit and is making a normal profit.
 - C) maximizing her profit and is earning a normal profit.
 - D) might be maximizing her profit and is incurring an economic loss.
 - E) None of the above answers are correct.
- 26) A tariff harms
- A) the government by decreasing its revenue.
 - B) domestic producers who can't compete with cheaper imports.
 - C) consumers who will pay more for the good.
 - D) All of the above answers are correct.
- 27) Under an average cost pricing rule, a regulated natural monopoly
- A) earns a positive economic profit, and there is a 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) incurs an economic loss, and there is no deadweight loss.

		Target	
		Set low prices	Set high prices
Walmart	Set low prices	T: \$9 million W: \$10 million	T: \$4 million W: \$6 million
	Set high prices	T: \$15 million W: \$3 million	T: \$2 million W: \$12 million

- 28) 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) Walmart has a dominant strategy but Target does not.
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 C) Both Walmart and Target have dominant strategies.
 D) Neither Walmart nor Target has a dominant strategy

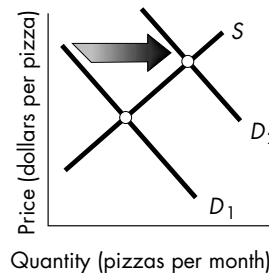


Figure A

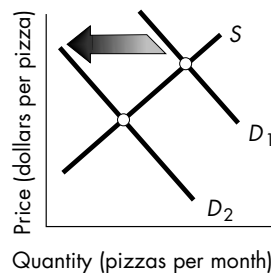


Figure B

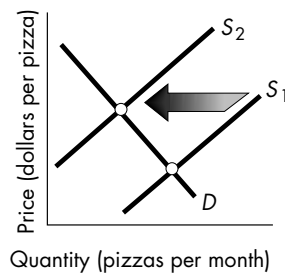


Figure C

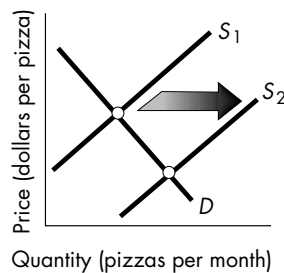


Figure D

- 29) The figure above shows the market for pizza. Suppose the number of companies producing pizza decreases. Which figure shows the effect of the decrease in the number of pizza producers?
- A) Figure A
 B) Figure B
 C) Figure C
 D) Figure D

- 30) Remember, if you have if you have a question about your test score, email the grader but if you have a question about a question, email me. BE SURE TO ANSWER THIS QUESTION; AND ANSWER GETS FULL CREDIT. In the meanwhile, the director is so stupid
- A) he was fired at the M&M factory for throwing away all the Ws.
 - B) he took a ruler to bed to see how long he slept.
 - C) he yells into an envelope to send a voice mail.
 - D) he ordered his sushi well done.
 - E) his brain was donated to science and science rejected it.