

# AS.180.102 (04): Elements of Microeconomics

## Midterm 2 - Practice and Review

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# Reminders

- Midterm 2 is next Thursday, November 14th
  - ▶ Bring a calculator and any writing utensils - we will not provide them
  - ▶ You will turn in your cheat sheet prior to the exam for extra credit
- Topics covered:
  - ▶ Chapter 8 - Costs of taxation
  - ▶ Chapter 22 - Theory of consumer choice
  - ▶ Chapter 14 - Costs of production
  - ▶ Chapter 15 - Firms in competitive markets
  - ▶ Chapter 16 - Monopoly\*
- My office hours are Wednesday 2:30-3:30pm. You can also ask me questions over email if not too complex.
- There is no section next Friday after the exam

# Points of Emphasis for the Exam

- If it says *explain*, then explain, do not just state a definition. **Examples are always helpful even if not explicitly asked for**
- Always provide working for calculations. We cannot give points if we don't know how you came to your answer and also you will get partial credit if working is correct but the final answer is not
- If drawing cost curves, remember that ATC will be at its lowest as it crosses MC. Points will likely be taken off if you draw it differently
- Always label axes, lines, and intercepts on graphs
- Make writing and graphs legible. We grade 160 exams and tolerance is low for interpreting unreadable writing

# Questions to Cover

- Utility maximizing principle of marginal analysis
- Economies/Diseconomies of scale
- Short-run/Long-run supply curves
- Why MC intersects ATC at ATC's minimum

# True/False Practice

- In groups of 3-5 people, spend the next 20 mins discussing the true/false questions
- Discuss **why** the answer is true or false
- We will go over answers after. Feel free to ask me questions as you go

## Chapter 8 Answers

- ① The introduction of a tax will always generate welfare loss. **False**
- ② Placing a \$5 tax on consumers will generate more revenue than placing a \$5 tax on producers. **False**
- ③ The consumers contribution to the DWL will be higher than the producers and the consumers burden of the tax will be higher than producers if demand is relatively inelastic compared to supply. **True**

## Chapter 22 Answers

- ① It is possible to obtain equal utility from a bundle of 4 units of good A, and 5 units of good B, and a bundle of 6 units of good A, and 5 units of good B. **True**
- ② Given the change in price of one good, the substitution effect can be positive for both goods. **False**
- ③ Given a change in price of one good, it is possible to obtain the same utility even when indifference curves are neither perfectly horizontal nor vertical. **False**

## Chapter 14 Answers

- ① We are experiencing diminishing marginal product if to make 450 sweaters in a day it costs \$800, but to make 800 sweaters in a day costs \$1500. **True**
- ② If average fixed cost is always decreasing as quantity increases, then average total cost will also always decrease with quantity. **False**
- ③ Our long run cost of producing 28 cars is \$5,350 but our long run cost of producing 50 cars is \$10,510. We must be experiencing diseconomies of scale. **True**



## Chapter 15 Answers

- ① All I need to calculate marginal revenue in a perfectly competitive market is total profit and quantity produced. **False**
- ② I am producing 1800 cartoons of eggs in the perfectly competitive egg market. My total costs are \$4500 and the rent for my chicken farm is \$935. The market price for a cartoon of eggs is \$2. I should shut down in the short run. **False**
- ③ I am a disposable plastic bottle water producer and the disposable plastic water bottle market is perfectly competitive. The market is in both short-run and long-run equilibrium. Suddenly, due to consumer environmental concerns, demand for these water bottles decreases. I am still covering my average variable costs in the short run but I should exit the market because I am going to lose money in the long run. **False**