

ECONOMICS 2

FIRST MIDTERM EXAMINATION

INSTRUCTIONS

1. Put your name, your SID number, and your GSI's name or your section number in the blanks provided on the front of the exam. ***Please do not put your name or your GSI's name anywhere else on the exam.***
2. The exam is written on ***both sides of the page***. Be sure to answer all the questions.
3. Write all of your answers directly on the exam in the spaces provided. **Use a dark enough pen so that answers remain legible** after electronic scanning.
4. Use blank pages at the back for scratch paper NOT your own paper.
5. The exam consists of three parts. There are 20 points in total. Part I counts for 8 points; Part II counts for 8 points; and Part III counts for 4 points.
6. Turn off and put away all cellphones and other electronics.
7. We collect the exams at exactly 6:30 p.m.

PLEASE DO NOT OPEN THE EXAM UNTIL INSTRUCTED TO DO SO.

Name _____

SID Number _____

GSI or Section Number _____

During the exam, I will NOT obtain help from anyone, provide help to anyone else, or use any notes or other resources. Sign below:

PAGE FOR GRADING ONLY (STUDENTS SHOULD SKIP IT)

QUESTION 1: _____

QUESTION 2: _____

QUESTION 3: _____

QUESTION 4: _____

PROBLEM 5a: _____

PROBLEM 5b: _____

PROBLEM 6a: _____

PROBLEM 6b: _____

MULTIPLE CHOICE: _____

TOTAL: _____

3. You observe that whenever a household's income increases, they increase their consumption of restaurant meals less than their consumption of clothing. What does this tell you about the relative slopes of the household's marginal utility curves for restaurant meals and clothing? **[2 points]**
4. Suppose there are two workers who produce two goods. If one worker is three times as productive as the other worker at both activities, could there be a gain from specialization? **[2 points]**

6. Suppose the government decides to put a tax on over-the-counter drugs (physically collected from sellers). You can assume that the over-the-counter drug market is highly competitive.
- a. If demand for over-the-counter drugs is relatively inelastic and supply is relatively elastic, who will pay most of the tax—consumers or producers? **[2 points]**
- b. Will the tax cause a deadweight loss? Will there be misallocation of the production and/or consumption of the good? **[2 points]**

PART III: MULTIPLE CHOICE QUESTIONS**[4 POINTS TOTAL]**

Each question is worth .5 points. Please write the letter of the **best** answer for each multiple choice questions below, like so:

7. **F** 8. **E**

...

7. _____

8. _____

9. _____

10. _____

11. _____

12. _____

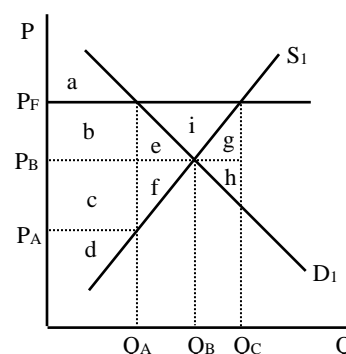
13. _____

14. _____

7. At the long-run equilibrium of a competitive market, for a typical firm:
- price equals marginal cost.
 - marginal revenue equals average total cost.
 - marginal cost equals average total cost.
 - (a) and (b).
 - (a) and (c).
 - (a), (b), and (c).
8. Suppose the price elasticity of supply in a market is very high. An outward shift of the demand curve will tend to cause:
- a large rise in quantity and a small rise in price.
 - a small rise in quantity and a large rise in price.
 - a large fall in quantity and a small rise in price.
 - a small fall in quantity and a large rise in price.
9. The supply curve of a monopolist:
- is the same as its marginal cost curve.
 - is to the left of its marginal cost curve.
 - is steeper than its marginal cost curve.
 - (b) and (c).
 - does not exist.

- 10.** If we observe that both the price and quantity of a good have increased, we can deduce that:
- the demand curve has shifted to the right.
 - the supply curve has shifted to the right.
 - the demand curve has not shifted.
 - the supply curve has not shifted.
 - (a) and (d).
 - (b) and (c).
- 11.** In “Fairness as a Constraint on Profit Seeking: Entitlements in the Market” by Kahneman, Knetsch, and Thaler, the authors find that people feel it is:
- always unfair for firms to raise prices.
 - unfair for firms to raise prices when demand increases but not when costs rise.
 - unfair for firms to pay workers less than the minimum wage.
 - none of the above.
- 12.** The fact that the PPC of the economy of a country is typically bowed out reflects:
- the gains from specialization.
 - the gains from international trade.
 - government tax revenue.
 - deadweight loss.

- 13.** The diagram to the right shows a market where there is a binding price floor, P_F . (The market is highly competitive with no market failures.) In this market, the deadweight loss is:



- area e+f.
 - area a+b+c+d.
 - area g+h.
 - at least area e+f, but almost certainly more than that.
 - at least area g+h, but almost certainly more than that.
 - area i.
- 14.** Consider the budget constraint for a consumer choosing between beer and pizza. If beer is on the vertical axis and pizza is on the horizontal axis, a rise in the price of pizza will:
- make the horizontal intercept of the budget constraint smaller.
 - not affect the horizontal intercept of the budget constraint.
 - make the vertical intercept of the budget constraint smaller.
 - not affect the vertical intercept of the budget constraint.
 - (a) and (d).
 - (b) and (c).
 - (a) and (c).
 - (b) and (d).

