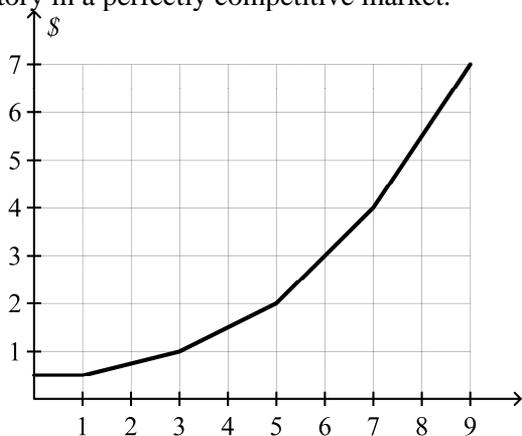




- Which of the following is **NOT** a social cost of bicycle theft?
  - the cost of the thief's time
  - the value of stolen bicycles
  - the inconvenience of having to leave bicycles in a safe place
  - the cost of bicycle locks

**Figure BMC.** The marginal costs of lamps for a factory in a perfectly competitive market.



- See **Figure BMC**. If the price of lamps is \$2, the factory will obtain about \$\_\_\_\_\_ of producer surplus. [Choose the closest value.]
  - 10.00
  - 0.00
  - 4.25
  - 8.50
- See **Figure BMC**. How many lamps will the factory produce when the price of lamps is \$5?
  - 8
  - 7
  - 0
  - MORE** information needed
- See **Figure BMC**. The variable cost of producing 5 lamps is about \$\_\_\_\_\_. [Choose the closest value.]
  - 5.75
  - 2.50
  - 10.00
  - more than 50.00
- Economists use models, because
  - computers are able to process even unimportant details.
  - the omission of unimportant details makes analysis easier.
  - every economic situation is essentially the same, so specific details are unnecessary.
  - exceptions to the model prove that people are irrational.

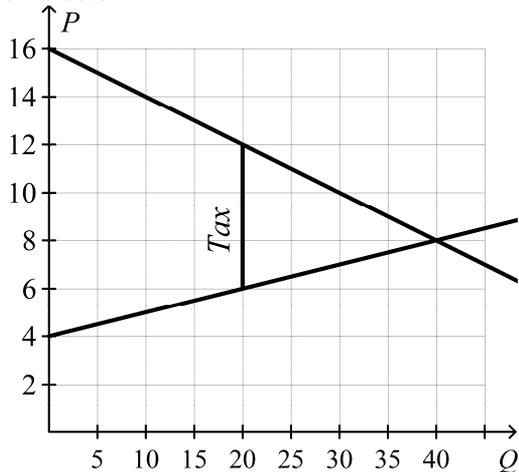
- LeBron James is an extremely talented basketball player with a salary of almost \$23 million per year. What is true about LeBron?
  - Most of his income can be explained by his hard work.
  - His behavior is a good example of rent seeking.
  - Most of his income is an economic rent to his talent.
  - NONE** of the above
- In competitive economies, many workers are often paid more than would be required to make them willing to do their jobs, because
  - firms cannot receive economic rents under competition.
  - firms will not pay economic rents to workers under competition.
  - good workers receive economic rents when firms compete with each other for labor.
  - a fair wage maximizes profits.

**Table STX.** The table below displays the willingness to pay of each consumer for his first three oranges (no one wants to eat more than three). Alex, Barb, and Carlos are the only buyers of oranges.

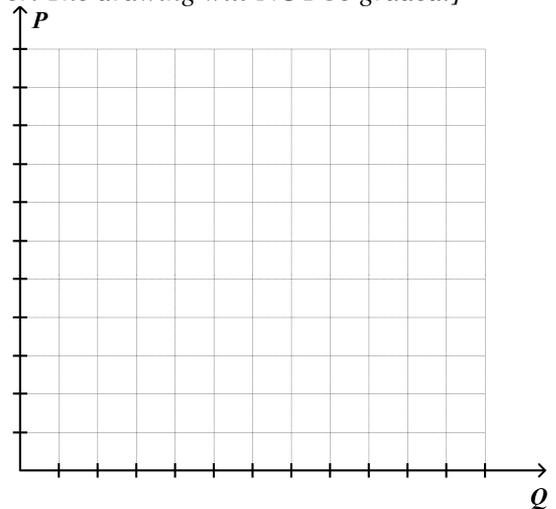
	1 <sup>st</sup> Orange	2 <sup>nd</sup> Orange	3 <sup>rd</sup> Orange
<b>Alex</b>	\$2.00	\$1.50	\$0.75
<b>Barb</b>	\$1.50	\$1.00	\$0.80
<b>Carlos</b>	\$0.75	\$0.25	\$0

- See **Table STX**. If the market price of an orange is \$1.20, consumer surplus amounts to
  - \$1.10.
  - \$1.40.
  - \$5.00.
  - \$0.70.
- See **Table STX**. The market quantity of oranges demanded is exactly 5 if the price of an orange  $P$  satisfies
  - $\$1.00 < P < \$1.50$ .
  - $\$0.75 < P < \$0.80$ .
  - $\$0.80 < P < \$1.00$ .
  - $\$0.80 < P < \$1.50$ .
- Which of the following does **NOT** affect a consumer's demand curve for cashmere sweaters?
  - the consumer's income
  - current fashion
  - manufacturing costs
  - expectations about future clothing prices

**Figure TXM.** Suppose the government enacts an excise tax in this perfectly-competitive market as shown below.

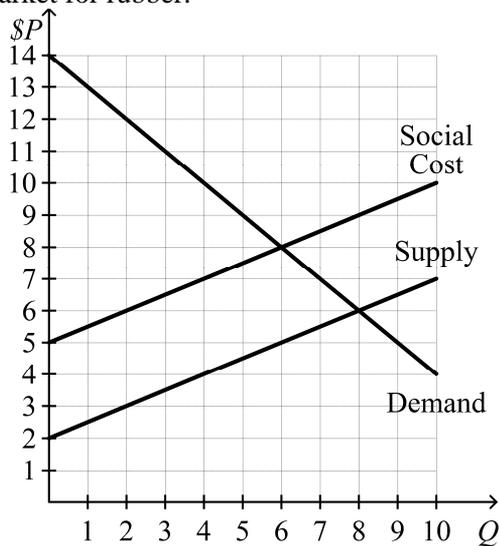


**Scenario BST.** Suppose farmers begin to treat cows with the hormone BST, which causes the cows to produce a lot more milk. Moreover, many people believe that milk from BST-treated cows improves health and increase life expectancy. [You may draw in the space below to help you answer. The drawing will NOT be graded.]

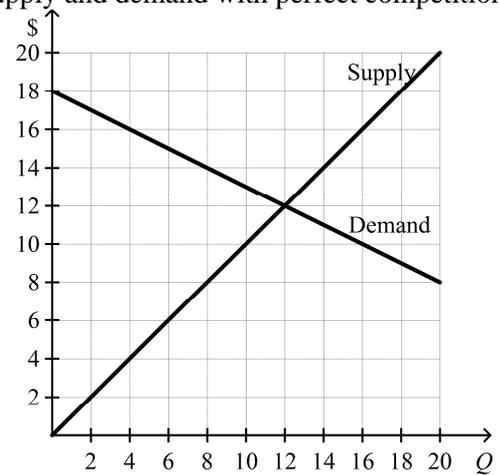


11. **See Figure TXM.** Consumers effectively pay a larger portion of the tax than producers do, because in the relevant price range
  - a. the demand curve is elastic.
  - b. supply is more elastic than demand.
  - c. the supply curve is inelastic.
  - d. demand is more elastic than supply.
12. **See Figure TXM.** The loss of social surplus caused by the tax is
  - a. 120.
  - b. 40.
  - c. 0.
  - d. 60.
13. **See Figure TXM.** The total reduction in consumer surplus as a result of the tax is
  - a. 0.
  - b. 120.
  - c. 240.
  - d. 20.
14. Policy makers should not focus entirely on maximizing social surplus, because
  - a. there is often too much surplus.
  - b. surplus may be distributed unfairly.
  - c. maximizing surplus is inefficient.
  - d. surplus is not related to consumer value.
15. The demand for gasoline is more elastic in the long run than in the short run, because when prices rise,
  - a. some people will eventually replace old cars with more fuel-efficient ones.
  - b. most drivers will continue to prefer big cars.
  - c. high gasoline prices are unfair to the poor.
  - d. people who drive to work stop wasting gasoline.
16. **See Scenario BST.** The supply curve for milk will
  - a. rotate.
  - b. be unaffected.
  - c. shift right.
  - d. shift left.
17. **See Scenario BST.** The demand curve for milk will
  - a. shift right.
  - b. be unaffected.
  - c. rotate.
  - d. shift left.
18. **See Scenario BST.** The equilibrium quantity of milk
  - a. will increase.
  - b. will decrease.
  - c. will not change.
  - d. could increase or decrease.
19. Judy works 20 hours per week at Star Market and earns \$6.00 per hour. Her boss decides to raise her wage to \$12.00 per hour. Then, Judy says to herself, "Great, now I don't have to work so many hours." This implies that
  - a. the income effect on her demand for leisure is stronger than the substitution effect.
  - b. she does not want to 'buy' more leisure as she becomes richer.
  - c. leisure is an inferior good.
  - d. her demand curve for leisure is not downward sloping.

**Figure EXB.** The following graph represents the market for rubber.



**Figure PCM.** The graph below describes market supply and demand with perfect competition.

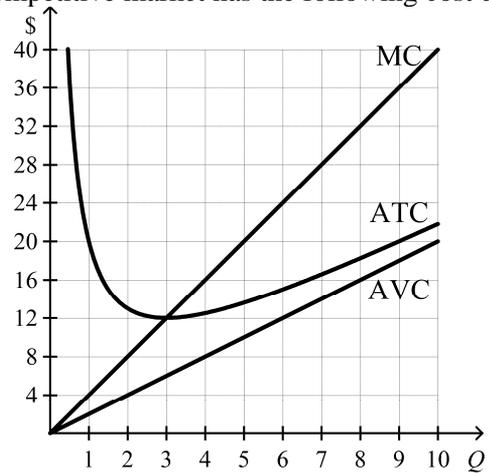


20. **See Figure EXB.** If 8 units of rubber are produced and consumed, then
- the demand curve will shift up.
  - social surplus is maximized.
  - social cost is less than private cost.
  - the market is in equilibrium.
21. **See Figure EXB.** An efficient tax would raise \_\_\_\_ of revenue for the government.
- \$30
  - \$48
  - \$18
  - NONE* of the above is efficient.
22. Suppose good weather in California increases the size of the lemon crop. What happens to consumer surplus in the market for lemons?
- It depends on whether the elasticity of demand for lemons is more or less than 1.
  - Consumer surplus decreases.
  - Consumer surplus increases.
  - Consumer surplus is not affected by this change in market forces.
23. Suppose the data show that people who drink wine are more likely to get cancer than other people. Then it would be correct to conclude that
- avoiding wine would reduce the chance of getting cancer.
  - most cancer patients were wine drinkers.
  - chemicals in wine cause cancer.
  - NONE* of the above

24. **See Figure PCM.** In equilibrium, social surplus is
- \$36.
  - \$72.
  - \$144.
  - \$108.
25. **See Figure PCM.** The equilibrium allocation of resources is
- inefficient because consumer surplus is smaller than producer surplus.
  - inefficient because social surplus is maximized when 20 units of output are produced and sold.
  - efficient because consumers can buy as much as they want to.
  - efficient because social surplus is maximized when 12 units are produced and sold.
26. **See Figure PCM.** The production and sale of unit 16 would reduce social surplus, because
- consumers place no value on unit 16.
  - the cost of producing unit 16 exceeds its value to consumers.
  - at unit 16,  $MC > ATC$ .
  - at unit 16, the elasticity of supply is infinite.
27. The free-rider problem refers to the fact that
- airline employees have a legal right to fly without purchasing a ticket.
  - public transportation always runs large deficits.
  - it is hard to make people pay for something that they can use without paying.
  - the marginal cost of allowing an additional consumer to enjoy a pure public good is zero.

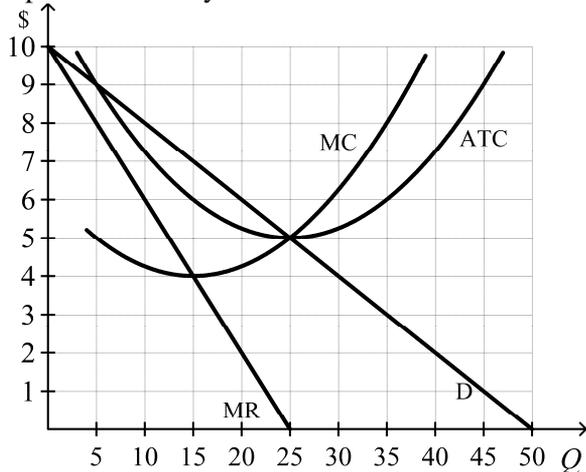
28. International trade raises the economic well-being of a nation in the sense that
- the value of the nation's currency rises when it begins to trade.
  - everyone in an economy gains from trade.
  - governments choose to trade the products that are most beneficial to the nation.
  - the gains of the winners exceed the losses of the losers.
29. Patent and copyright laws are major sources of
- natural monopolies.
  - government-created monopolies.
  - resource monopolies.
  - antitrust regulation.
30. A private firm that owned a park in Boston would not be able to operate it efficiently, because
- it would be possible to exclude people from the park.
  - a private firm would want to set an admission price that is inefficiently low.
  - the use of a park tends to be rivalrous.
  - the firm would have to exclude some people who could benefit from the park.
31. Which of the following is normally *not* part of the opportunity cost of attending Boston University?
- the cost of clothing
  - the additional cost of room and board at BU
  - tuition
  - lost income from not working
32. Capital formation is difficult in poor countries, because
- most poor countries are undemocratic.
  - they cannot reduce their already low level of consumption.
  - they lack advanced technologies.
  - they cannot increase their money supply without creating inflation.
33. Which of the following is **NOT** an example of rent-seeking?
- Nick tells his students to tell the dean that he is an excellent teacher.
  - Bruno gives an excellent bottle of Port wine to the graduate director, because he wants his fellowship to be renewed.
  - Shree prepares her discussion section carefully, because she hopes to get good course evaluations.
  - Michael gives easy tests, because he hopes to get good course evaluations.

**Figure QMB.** Suppose each firm in a perfectly competitive market has the following cost curves:



34. **See Figure QMB.** Each firm will remain open *in the short run*
- only if the price is at least \$12.
  - only if the MC is less than \$12.
  - only if the AVC is at least \$12.
  - at any price greater than zero.
35. **See Figure QMB.** Each firm has a fixed cost of approximately
- 0.
  - \$18.
  - \$12.
  - MORE* information is needed.
36. **See Figure QMB.** If the price is \$12, then in long-run equilibrium, each firm will
- shut down.
  - continue to expand.
  - produce 3 units.
  - set AVC equal to ATC.
37. Nondiscriminating monopolies use their market power to
- produce the quantity at which average cost is minimized.
  - charge a price that is higher than marginal cost.
  - to sell to consumers at prices above their willingness to pay.
  - increase the quantity sold as they increase price.
38. Which of the following goods can best be provided by private firms without government assistance?
- a high literacy rate
  - refrigerators that use less electricity
  - control of contagious diseases
  - low crime rates

**Figure MNC.** The graph below describes the short-run situation of the **Don** company, a typical profit-maximizing firm in a monopolistically competitive industry.



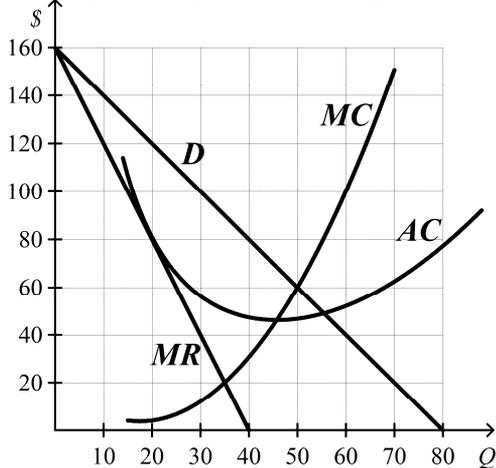
39. **See Figure MNC.** As described in this figure, Don will
- have to shut down.
  - earn a long-run economic profit.
  - suffer a short-run loss.
  - earn a short-run economic profit.
40. **See Figure MNC.** In the short run, how many units of output will Don produce?
- 30
  - 15
  - 10
  - 0
41. **See Figure MNC.** Which of the following will occur in the long run in this industry?
- Don will continue to earn positive economic profits.
  - Other firms will exit this industry.
  - Other firms will enter this industry.
  - Don firm will suffer losses.
42. **See Figure MNC.** In long-run equilibrium, Don would produce *approximately* \_\_\_\_\_ units.
- 25
  - 10
  - 0
  - 20

**Table MCB.** The table below describes what happens when two fast-food chains, **McAful** and **Burger Pickle** run positive or negative advertisements (“ads”). [Positive ads say good things about the advertiser herself; negative ads say bad things about her competitor.] The payoffs (**McAful**, **Burger Pickle**) displayed in each cell represent the percentage increase or decrease in profits for each chain.

		<i>Burger Pickle</i>	
		Positive	Negative
<i>McAful</i>	Positive	(+1, +2)	(+4, -4)
	Negative	(-6, +6)	(-3, -2)

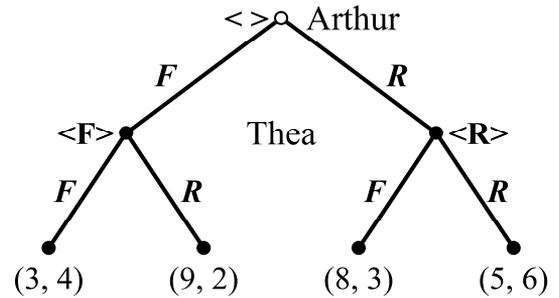
43. **See Table MCB.** For Burger Pickle, using negative ads is
- a dominated strategy.
  - a mixed strategy.
  - a dominant strategy.
  - not a strategy.
44. **See Table MCB.** In Nash equilibrium,
- McAful will use positive advertisements and Burger Pickle will use negative advertisements.
  - both chains will use negative advertisements.
  - the Burger Pickle will use positive advertisements and the McAful will run negative advertisements.
  - both chains will use positive advertisements.
45. **See Table MCB.** What is true about this game?
- The managers of the firms are irrational.
  - All consumers prefer Burger Pickle.
  - The Nash equilibrium is Pareto efficient.
  - These firms would be more profitable if they had the same owner.
46. Clean air is a public good, partly because
- only governments have the technology to keep air clean.
  - government regulations preserve it.
  - it promotes public health.
  - people can enjoy it without paying for it.
47. The price elasticity of demand for widgets is  $-2$ . At a price of \$10, a store sells 200 widgets per month. The store owner decides that she wants to sell 240 widgets per month. What price should she set?
- \$8.00
  - \$7.00
  - \$9.00
  - \$4.20

**Figure RMN.** This graph represents the Cheetam company, a profit-maximizing nondiscriminating monopoly. [AC represents average total cost.]



48. **See Figure RMN.** What price will Cheetam charge?
- 90
  - 60
  - 46
  - 20
49. **See Figure RMN.** What price would a monopoly regulator set if the regulator wants to maximize social surplus?
- 90
  - 46
  - 60
  - 20
50. **See Figure RMN.** How many units would Cheetam produce if Cheetam could price-discriminate perfectly?
- 40
  - 46
  - 50
  - 35
51. Suppose the price of chicken increases by 2%, and the quantity supplied rises by 1% as a result. Then the price elasticity of supply is \_\_\_\_.
- 0
  - 1/2
  - 1/2
  - 2
52. Removing binding rent controls is likely to
- increase racial discrimination by landlords.
  - cause the demand curve to shift to the left.
  - reduce the quality of rented apartments.
  - reduce illegal payment to landlords.

**Figure LFR.** In the game tree below, Arthur decides whether to buy a ticket for football (F) or the opera (R). Thea looks at his ticket, and then she decides between football and opera. Payoffs are given as (Arthur's payoff, Thea's payoff).



53. **See Figure LFR.** Which of the following is true about Arthur?
- He would rather see football than opera, no matter what Thea does.
  - He would rather see football with Thea than see it alone.
  - He would rather see football and opera alone than see either one with Thea.
  - NONE* of the above
54. **See Figure LFR.** Thea has \_\_\_\_\_ possible strategies; Arthur has \_\_\_\_\_ possible strategies.
- four; four
  - four; two
  - two; two
  - two; four
55. **See Figure LFR.** In a subgame-perfect equilibrium, Arthur gets \_\_\_\_ and Thea gets \_\_\_\_.
- 9; 2
  - 8; 3
  - 5; 6
  - 3; 4
56. In Cournot competition, the firms
- compete by choosing their prices.
  - compete by choosing the quantities they will produce.
  - collude to fix prices and earn monopoly profits.
  - match price cuts by rivals but not price increases.

**Scenario RTB.** Two firms, *A* and *B*, each produce the same product at  $AC \equiv MC \equiv 20$ . They each set prices:  $P_A$  and  $P_B$ . Prices can be anywhere between \$10 and \$50. If  $P_A \neq P_B$ , consumers buy 10 units from the low-price firm, and 0 from the high-price firm. If  $P_A = P_B$ , consumers buy 5 from each firm. The payoffs are the profits of each firm.

57. **See Scenario RTB.** How much profit does *each* firm receive if both firms charge \$30 per unit.
- 0
  - \$50
  - \$200
  - \$100
58. **See Scenario RTB.** If both firms charge \$30 per unit, then
- neither firm will want to deviate.
  - only firm *A* will want to deviate.
  - both firms will want to deviate.
  - only firm *B* will want to deviate.
59. **See Scenario RTB.** If  $P_A = \$10$ , which of the following prices is a best response for *B*?
- \$40
  - \$10
  - \$9
  - ALL* of the above
60. **See Scenario RTB.** Which of the following strategy profiles forms a Nash equilibrium?
- firm *A* charges \$50 and *B* charges \$10
  - firm *B* charges \$50 and *A* charges \$10
  - both firms charge \$20
  - both firms charge \$50