EC101 DD/EE Final Exam December 17, 2019 Version 02

Name (last, first): |__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|

Student ID: |U|__|__|-|__|__|-|__|__|__|__| Discussion Section: |___|

Signature____________________________________

EC101 DD/EE Final Exam F19

INSTRUCTIONS (***Read Carefully***):

ON YOUR QUESTION BOOKLET:
Fill in your name, Student ID, Discussion Section Number (e.g. D5) and your signature.

ON YOUR SCANTRON:
Enter the Course Number (EC101 DD or EE) and date on the lines at the top-left. In the boxes below, enter your Student ID, your DISCUSSION SECTION number (D1 - D9, E0 - E9), your NAME and your EXAM VERSION into the Scantron computer sheet. Be sure that you “bubble” all entries (fill in the small circles). I will subtract up to 5 points as punishment for errors in these data!

DURING THE EXAM:
Students who wish to leave the room for any reason must leave the Question Booklet and Scantron sheet with the instructor or teaching fellow. Students in EC101DD MUST turn in both the Question Booklet and the Scantron sheet at the end of the exam and exit from the front of the room. (The question booklets of EC101DD students will be available in the Principles Center within a few days.) Students in EC101EE should keep their Question Booklet and turn in only their Scantrons. All students must show their BU Student IDs as they leave the exam room.

MULTIPLE-CHOICE QUESTIONS:
Choose the BEST answer for each of the multiple-choice questions. (Only ONE answer is allowed, even when more than one of the answers is technically correct.) On the Question Booklet, CIRCLE the letter that you chose, so that you have a record of your answers. Then BUBBLE it on the Scantron for grading.

Never cross out an answer on your Scantron. Use a pencil to bubble your answers, and keep a good eraser with you. If you bubble the wrong answer on the Scantron, erase your mark COMPLETELY, and then bubble the correct answer.

***YOU MAY NOT USE A CALCULATOR, CELL PHONE OR LAPTOP.

***However, INTERNATIONAL STUDENTS may use electronic translators or dictionaries.

You have 120 minutes to complete the exam. Good luck!

DO NOT OPEN THIS BOOKLET OR TURN IT OVER
[until told to do so]
1. Which of the following does \textit{NOT} affect a consumer's demand curve for iPhones?
   a. iPhone size
   b. fixed costs of smartphone production
   c. expectations about future smartphone prices
   d. the consumer’s income

\textit{Figure BMC.} The marginal costs of lamps for a factory in a perfectly competitive market.

2. \textit{See Figure BMC.} If the price of lamps is $2, the factory will obtain about $\ldots$ of producer surplus.
   \textit{[Choose the closest value.]}
   a. 2.25
   b. 8.50
   c. 0.00
   d. 4.25

3. \textit{See Figure BMC.} How many lamps will the factory produce when the price of lamps is $5?
   a. 0
   b. 7
   c. 8
   d. \textit{MORE} information needed

4. \textit{See Figure BMC.} The variable cost of producing 5 lamps is about $\ldots$. \textit{[Choose the closest value.]}
   a. 8.25
   b. 5.75
   c. 2.50
   d. more than 50.00

5. When you calculate your opportunity cost of going to college, what portion of your living expenses should be included?
   a. none of your living expenses
   b. your living expenses minus the living expenses you would have had if you weren’t in college
   c. your full living expenses
   d. your living expenses minus the income you earn while attending college

\textit{Figure TXA.} Suppose the government enacts an excise tax in this perfectly-competitive market as shown below.

6. \textit{See Figure TXA.} What proportion of the tax is paid by consumers and producers?
   a. In this case, consumers and producers each pay 50 percent of the tax.
   b. Consumers pay the entire tax.
   c. It depends on who sends the tax to the government.
   d. Producers pay the entire tax.

7. \textit{See Figure TXA.} The loss of social surplus caused by the tax is
   a. 40.
   b. 160.
   c. 0.
   d. 90.

8. \textit{See Figure TXA.} The total reduction in consumer surplus as a result of the tax is
   a. 150.
   b. 240.
   c. 120.
   d. 0.

9. Which of the following is \textit{NOT} an example of rent-seeking by members of the EC101/DD/EE Team?
   a. Michael gives easy tests so that students will tell him he’s a nice guy.
   b. Franco tells his students to tell the dean that he is an excellent teacher.
   c. Kewei prepares his discussion section carefully, because he hopes to get good course evaluations.
   d. Matteo gives an excellent bottle of Italian wine to the graduate director, because he wants his fellowship to be renewed.
10. Suppose the price elasticity of demand for widgets is \(-1\). At a price of $20, a store sells 200 widgets per month. The store owner decides that she wants to sell 220 widgets per month. What price should she set?
   a. $16.00  
   b. $14.00  
   c. $18.00  
   d. $8.40  

**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 can cause cancer.  

![You may draw in the space below to help you answer. The drawing will NOT be graded.]

11. **See Scenario BST.** The supply curve for milk will
   a. be unaffected.  
   b. shift right.  
   c. shift left.  
   d. rotate.  

12. **See Scenario BST.** The demand curve for milk will
   a. shift left.  
   b. rotate.  
   c. be unaffected.  
   d. shift right.  

13. **See Scenario BST.** The equilibrium quantity of milk
   a. could increase or decrease.  
   b. will not change.  
   c. will decrease.  
   d. will increase.  

14. Policy makers should not focus entirely on maximizing social surplus, because
   a. maximizing surplus is inefficient.  
   b. there is often too much surplus.  
   c. surplus is not related to consumer value.  
   d. surplus may be distributed unfairly.  

15. In competitive economies, many workers are often paid more than would be required to make them willing to do their jobs, because
   a. a fair wage maximizes profits.  
   b. firms cannot receive economic rents under competition.  
   c. firms will not pay economic rents to workers under competition.  
   d. good workers receive economic rents when firms compete with each other for labor.  

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

![Figure EXT. The following graph represents the market for rubber.]

16. **See Figure EXT.** If 6 units of rubber are produced and consumed, then
   a. social surplus is maximized.  
   b. the market is in equilibrium.  
   c. there are unexploited social gains of trade.  
   d. rubber must have positive externalities.  

17. **See Figure EXT.** In order to reach the social optimum, the government could
   a. impose a tax of $2 per unit.  
   b. impose a tax of $3 per unit.  
   c. impose a tax of $8 per unit.  
   d. apply a price ceiling of $8 per unit.  

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18. A for-profit private firm that owned an art museum in Boston would not be able to operate it efficiently, because
   a. viewing works of art in a museum is usually rivalrous.
   b. a for-profit firm would want to set an admission price that is inefficiently low.
   c. the firm would have to exclude some people who would benefit from the museum.
   d. it isn’t possible to exclude people from the museum.

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.

<table>
<thead>
<tr>
<th></th>
<th>1st Orange</th>
<th>2nd Orange</th>
<th>3rd Orange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alex</td>
<td>$2.00</td>
<td>$1.10</td>
<td>$0.75</td>
</tr>
<tr>
<td>Barb</td>
<td>$1.50</td>
<td>$1.00</td>
<td>$0.80</td>
</tr>
<tr>
<td>Carlos</td>
<td>$0.80</td>
<td>$0.30</td>
<td>$0</td>
</tr>
</tbody>
</table>

19. See Table STX. If the market price of an orange is $1.20, consumer surplus will be
   a. $1.40.
   b. $1.10.
   c. $0.70.
   d. $5.00.

20. See Table STX. The market quantity of oranges demanded is exactly 4 if the price of an orange $P$ satisfies
   a. $0.80 < P < $1.00.
   b. $1.00 < P < $1.50.
   c. $0.80 < P < $1.50.
   d. $0.75 < P < $0.80.

21. The free-rider problem refers to the fact that
   a. the marginal cost of allowing an additional consumer to enjoy a pure public good is zero.
   b. public transportation always runs large deficits.
   c. airline employees have a legal right to fly without purchasing a ticket.
   d. it is hard to make people pay for something that they can use without paying.

22. Suppose the data show that people who drink wine are more likely to get cancer than other people are. Then it would be correct to conclude that
   a. most cancer patients were wine drinkers.
   b. chemicals in wine cause cancer.
   c. avoiding wine would reduce the chance of getting cancer.
   d. NONE of the above

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

23. See Figure QMB. Each firm has a fixed cost of approximately
   a. $6.
   b. 0.
   c. $9.
   d. MORE information is needed.

24. See Figure QMB. Each firm will remain open in the short run
   a. only if the AVC is at least $6.
   b. only if the MC is less than $6.
   c. at any price greater than zero.
   d. only if the price is at least $6.

25. See Figure QMB. If the price is $6, then in long-run equilibrium, each firm will
   a. shut down.
   b. produce 3 units.
   c. earn profits of $9 per period.
   d. continue to expand.

26. Nondiscriminating monopolies usually
   a. sell to consumers at prices above their willingness to pay.
   b. charge a price that is higher than marginal cost.
   c. produce the quantity at which average cost is minimized.
   d. ignore cost when deciding how much to sell.

27. International trade raises the economic well-being of a nation in the sense that
   a. everyone in an economy gains from trade.
   b. the value of the nation’s currency rises when it begins to trade.
   c. the gains of the winners exceed the losses of the losers.
   d. governments choose to trade the products that are most beneficial to the nation.
Scenario MRZ. Suppose Firm XYZ produces in a perfectly competitive market and has the following marginal costs: for each unit from 1 to 100, \( MC = \$20 \), and for each unit from 101 to 1000, \( MC = \$30 \). XYZ has no fixed costs.

28. See Scenario MRZ. If the market price is \( \$25 \), then the firm will produce ______ units and get a producer surplus of ______.
   a. 1000, \( \$5000 \)
   b. 0, \( \$0 \)
   c. 100, \( \$500 \)
   d. UNDEFINED, because price doesn’t equal marginal cost

29. See Scenario MRZ. If the market price is \( \$15 \) then Firm XYZ will
   a. produce 100 units and raise its price to \( \$20 \).
   b. continue to produce until price equals marginal cost.
   c. produce zero.
   d. NONE of the above

30. See Scenario MRZ. Suppose that a change in safety regulations creates a fixed cost of \( \$20 \). If the market price is \( \$25 \), then XYZ’s profit will be
   a. \( \$500 \)
   b. \( \$0 \)
   c. \( \$4980 \)
   d. \( \$480 \)

31. Clean rivers are public goods, partly because
   a. they promote public health.
   b. people can enjoy clean rivers without paying for them.
   c. only governments have the technology to keep rivers clean.
   d. government regulations apply to all rivers.

32. Which of the following is NOT a social cost of bicycle theft?
   a. the inconvenience of having to leave bicycles in a safe place
   b. the cost of the thief’s time
   c. the value of stolen bicycles
   d. the cost of bicycle locks used by bicycle owners

33. Patent and copyright laws often lead to
   a. government-created monopolies.
   b. antitrust regulation.
   c. monopolistic competition.
   d. natural monopolies.

34. Siyi works 20 hours per week at Star Market and earns \( \$7.50 \) per hour. A new minimum-wage law in Massachusetts increases his wage to \( \$15.00 \) per hour. Then, Siyi says to himself, “Great, now I don’t have to work so many hours.” This implies that
   a. for Siyi, leisure is an inferior good.
   b. his demand curve for leisure is not downward sloping.
   c. he does not want to ‘buy’ more leisure as he becomes richer.
   d. the income effect on his demand for leisure is stronger than the substitution effect.

35. See Figure RMN. What price will Scruam charge?
   a. \( \$10 \)
   b. \( \$30 \)
   c. \( \$45 \)
   d. \( \$23 \)

36. See Figure RMN. What price would a monopoly regulator set if the regulator wants to maximize social surplus?
   a. \( \$10 \)
   b. \( \$23 \)
   c. \( \$30 \)
   d. \( \$45 \)

37. See Figure RMN. How many units would Scruam produce if Scruam could price-discriminate perfectly?
   a. 50
   b. 35
   c. 46
   d. 40
38. Lionel Messi is an extremely talented soccer (football) player with a salary of more than $600,000 per week! What is true about Messi?
   a. His behavior is a good example of rent seeking.
   b. Most of his income is an economic rent to his talent.
   c. Most of his income can be explained by his hard work.
   d. NONE of the above

39. See Table MCB. For Burger Pickle, using positive ads is
   a. a mixed strategy.
   b. not a strategy.
   c. a dominated strategy.
   d. a dominant strategy.

40. See Table MCB. In Nash equilibrium,
   a. Burger Pickle will use positive ads and the McAuluf will run negative ads.
   b. both chains will use positive ads.
   c. both chains will use negative ads.
   d. McAuluf will use positive ads and Burger Pickle will use negative ads.

41. See Table MCB. What is true about this game?
   a. All consumers prefer Burger Pickle.
   b. These firms would be more profitable if they had the same owner.
   c. The managers of the firms are irrational.
   d. The Nash equilibrium is Pareto efficient.

42. Capital formation is difficult in poor countries, because
   a. they cannot reduce their already low level of consumption.
   b. most poor countries are undemocratic.
   c. they cannot increase their money supply without creating inflation.
   d. they lack advanced technologies.

43. Removing binding rent controls is likely to
   a. cause the demand curve to shift to the left.
   b. reduce the quality of rented apartments.
   c. decrease racial discrimination by landlords.
   d. increase illegal payment to landlords.

44. Suppose bad weather in California decreases the size of the avocado crop. What happens to consumer surplus in the market for avocados?
   a. Consumer surplus increases.
   b. It depends on whether the elasticity of demand for avocados is more or less than 1.
   c. Consumer surplus is not affected by this change in market forces.
   d. Consumer surplus decreases.

45. See Scenario RTB. How much profit does each firm receive if both firms charge $60 per unit?
   a. $200
   b. 0
   c. $50
   d. $100

46. See Scenario RTB. If both firms charge $60 per unit, then
   a. only firm B will want to deviate.
   b. neither firm will want to deviate.
   c. only firm A will want to deviate.
   d. both firms will want to deviate.

47. See Scenario RTB. If \( P_A = \$20 \), which of the following prices is a best response for \( B \)?
   a. $18
   b. $20
   c. $80
   d. ALL of the above

48. See Scenario RTB. Which of the following strategy profiles forms a Nash equilibrium?
   a. firm \( B \) charges $100 and \( A \) charges $20
   b. firm \( A \) charges $100 and \( B \) charges $20
   c. both firms charge $40
   d. both firms charge $100
Figure LFR. In the game tree below, Thea decides whether to buy a ticket for football (F) or the opera (R). Arthur looks at her ticket, and then he decides between football and opera. Payoffs are given as (Thea’s payoff, Arthur’s payoff).

```
       <Thea>
       /
      /  
     /    
   F     R
  /       
/F        /
 /         /
(3, 4)    (9, 2)
```

49. See Figure LFR. Which of the following is true about Thea?
   a. She would rather see football than opera, no matter what Arthur does.
   b. She would rather see football with Arthur than see it alone.
   c. She would rather see football and opera alone than see either one with Arthur.
   d. NONE of the above

50. See Figure LFR. Thea has _____ possible strategies; Arthur has _____ possible strategies.
   a. two; two
   b. four; four
   c. two; four
   d. four; two

51. See Figure LFR. In a subgame-perfect equilibrium, Thea gets ____ and Arthur gets ____.
   a. 9; 2
   b. 5; 6
   c. 8; 3
   d. 3; 4

52. In Cournot competition, the firms
   a. match price cuts by rivals but not price increases.
   b. collude to fix prices and earn monopoly profits.
   c. compete by choosing their prices.
   d. compete by choosing the quantities they will produce.

53. Which of the following can best be provided efficiently by private firms without government assistance?
   a. control of contagious diseases
   b. clean streets
   c. a high literacy rate
   d. home cleaning services

Figure XOR. The graph below describes the short-run situation of the Axon Memory Chips, a profit-maximizing firm in a monopolistically competitive industry.

54. See Figure XOR. As described in this figure, Axon will
   a. have to shut down.
   b. earn a short-run economic profit.
   c. earn a long-run economic profit.
   d. suffer a short-run loss.

55. See Figure XOR. In the short run, how many units of output will Axon produce?
   a. 10
   b. 15
   c. 0
   d. 30

56. See Figure XOR. Which of the following will occur in the long run in this industry?
   a. Axon firm will suffer losses.
   b. Axon will continue to earn economic profits.
   c. Other firms will exit this industry.
   d. Other firms will enter this industry.

57. See Figure XOR. In long-run equilibrium, Axon would produce approximately _____ units.
   a. 20
   b. 10
   c. 0
   d. 25

58. Suppose the price of chicken increases by 1%, and the quantity supplied rises by 2% as a result. Then the price elasticity of supply is ____.
   a. –1/2
   b. 1/2
   c. 2
   d. 0
59. The demand for gasoline is more elastic in the long run than in the short run, because when gasoline prices rise,
   a. most drivers will continue to prefer big cars.
   b. people who drive to work stop wasting gasoline.
   c. high gasoline prices are unfair to the poor.
   d. some people will eventually replace old cars with more fuel-efficient ones.

60. Economists use models, because
   a. every economic situation is essentially the same, so specific details are unnecessary.
   b. the omission of unimportant details makes analysis easier.
   c. computers are able to process even unimportant details.
   d. exceptions to the model prove that people are irrational.