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. 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 EC101EE (Dec 15) **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. Students in EC101DD (Dec 17) 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 sheet 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 2 hours (120 minutes) to complete 60 questions. Good luck!

**DO NOT OPEN THIS BOOKLET OR TURN IT OVER**

[until told to do so]
1. 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. the supply curve is inelastic.
   c. supply is more elastic than demand.
   d. demand is more elastic than supply.

2. See Figure TXM. The loss of social surplus caused by the tax is
   a. 60.
   b. 30.
   c. 20.
   d. 0.

3. See Figure TXM. The total reduction in consumer surplus as a result of the tax is
   a. 120.
   b. 10.
   c. 60.
   d. 0.

4. A firm can obtain market power by
   a. reducing the part of its fixed cost that is not sunk.
   b. differentiating its product from those of other producers.
   c. increasing its use of fuel and electricity.
   d. lowering the price of its product.

5. Suppose a thief breaks your car window and steals $100 that you left on the driver’s seat. You decide to be more careful in the future. Which of the following does not represent a loss of social surplus?
   a. your future theft-prevention efforts
   b. the stolen $100
   c. the broken car window
   d. the thief’s labor

6. See Table EXR. The social benefit of the 4th statue would be
   a. $25.
   b. $11.
   c. $5.
   d. $21.

7. See Table EXR. The market-equilibrium quantity of statues produced is
   a. 6.
   b. 3.
   c. 4.
   d. 5.

8. See Table EXR. What amount of subsidy per statue would move the market from the equilibrium level of output to the socially optimal level of output?
   a. $5
   b. $10
   c. $2
   d. $3

9. Which of the following statements is not correct about a competitive market in equilibrium?
   a. The price determines which buyers and which sellers participate in the market.
   b. Those sellers whose costs are less than the price choose to produce and sell the good.
   c. Consumers who buy have a higher willingness to pay than consumers who don’t buy.
   d. Consumer surplus will be equal to producer surplus.

10. As compared with barter, selling and buying
    a. makes it easier to find trading partners.
    b. yields more useful information about market value.
    c. requires the use of a widely accepted medium of exchange.
    d. ALL of the above
Figure NDR. This graph represents the Cheetam company, a profit-maximizing nondiscriminating monopoly. [AC represents average total cost.]

11. **See Figure NDR.** What price will Cheetam charge?
   a. 23
   b. 45
   c. 30
   d. 10

12. **See Figure NDR.** Cheetam’s profits will be approximately
   a. –500.
   b. 1400.
   c. 3000.
   d. 0.

13. **See Figure NDR.** What price would a monopoly regulator set if the regulator wants to maximize social surplus?
   a. 30
   b. 45
   c. 10
   d. 23

14. A perfectly inelastic supply curve is
   a. vertical.
   b. horizontal.
   c. diagonal.
   d. NONE of the above

15. A good reason for government intervention in a market with externalities would be to
   a. reduce production when externalities are positive.
   b. take account of the welfare of people other than the buyer and the seller.
   c. make certain all benefits are received by market participants.
   d. increase production when externalities are negative.

16. Ginger left her job as a home decorator where she earned $60,000/year in order to attend the BU School of Hospitality Administration (SHA). To attend SHA she pays $40,000/year tuition. She continues to rent the same apartment, for which she pays $15,000/year. What is her yearly economic cost of attending SHA?
   a. $115,000
   b. $40,000
   c. $55,000
   d. $100,000

Scenario BSE. Suppose mad-cow disease kills many milk cows in Britain. Moreover, many British people believe that mad-cow disease could be transmitted to consumers who drink milk.

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

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

19. **See Scenario BSE.** The equilibrium price of milk
   a. will decrease.
   b. will increase.
   c. will not change.
   d. could increase or decrease.

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20. Which of the following is not a determinant of demand for a particular good?
   a. income
   b. the prices of the inputs used to produce the good
   c. tastes
   d. the prices of related goods

21. Which of the following is not included in the opportunity cost of being a full-time student?
   a. the salary the student would have earned from a regular job
   b. the cost of books
   c. the cost of food
   d. the cost of tuition

22. See Figure SDA. At a price of $15, there would be a
   a. surplus of 200 units.
   b. surplus of 400 units.
   c. shortage of 400 units.
   d. surplus of 600 units.

23. See Figure SDA. When the price increases from $25 to $30, the price elasticity of supply is approximately
   a. 0.5
   b. 2.75
   c. 5.0
   d. 1.25

24. See Figure SDA. Suppose a health scare cuts consumer demand in half. The new equilibrium price of milk would be approximately ___. [Hint: Draw on the graph in Figure SDA.]
   a. 25
   b. 30
   c. 18
   d. 15

25. Many soccer stars earn millions of dollars per year. Suppose that FIFA proposes a salary maximum of $100,000 for soccer players. This would be economically inefficient because
   a. the savings would go into the pockets of team owners.
   b. great soccer players deserve what they earn.
   c. great soccer players might play with teams that create less social value.
   d. tax collections from soccer players would be reduced.

26. See Table TRX. The time required for baking cakes and pies in Maine and Vermont is shown in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Cake</th>
<th>Pie</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maine</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>Vermont</td>
<td>30</td>
<td>15</td>
</tr>
</tbody>
</table>

27. See Table TRX. If Maine and Vermont trade with each other based on comparative advantage, Maine will export
   a. both goods and Vermont will export neither good.
   b. pies and Vermont will export cakes.
   c. neither good and Vermont will export both goods.
   d. cakes and Vermont will export pies.

28. Suppose your roommate is very messy. Being messy is worth $25 to her because it makes her life easier, but the mess makes you feel $50 worse off. One efficient solution would be for you to
   a. offer to clean up her mess if she pays you $30.
   b. pay your roommate $30 to stop being messy.
   c. pay your roommate $60 to stop being messy.
   d. pay $60 to a cleaning company to clean up her mess.

29. Private firms will not produce nonexcludable goods, because
   a. production costs are high.
   b. demand for nonexcludable goods is inelastic.
   c. people can consume the goods without paying for them.
   d. ALL of the above
30. See Figure CCV. If the market price is exactly $8 then the firm should
   a. stay in business in the long run.
   b. stay in business in the short run, but not in the long run.
   c. stay in business until fixed costs become avoidable, and then shut down.
   d. shut down immediately.

31. See Figure CCV. The firm’s short-run supply curve is the same as
   a. its average total cost curve at prices above $6.30 and is on the vertical axis at lower prices.
   b. its marginal cost curve at prices above $4.50 and is on the vertical axis at lower prices.
   c. its average total cost curve at prices above $4.50 and is on the vertical axis at lower prices.
   d. its marginal cost curve.

32. See Figure CCV. The firm should shut down immediately if the market price is
   a. above $8.
   b. above $4.50 but less than $6.30.
   c. above $6.30 but less than $8.
   d. less than $4.50.

33. An international student spends $80 for a ticket to game six of the baseball World Series. But after an hour, she decides that baseball is extremely boring. If she is economically rational, she should
   a. stay there, because the $80 is a sunk cost.
   b. stay there, because $80 was an avoidable cost.
   c. leave and do something more fun.
   d. stay there, because she will lose consumer surplus if she leaves.

34. A key determinant of the price elasticity of supply is
   a. the ability of sellers to change the price of the good they produce.
   b. how responsive buyers are to changes in sellers' prices.
   c. the slope of the demand curve.
   d. the ability of sellers to change the amount of the good they produce.

Scenario OPC. Suppose a nondiscriminating profit-maximizing monopolist has a demand curve that can be expressed as \( P = 180 - 2Q \), so that the monopolist’s marginal revenue curve would be given by \( MR = 180 - 4Q \). The monopolist has constant marginal costs and average total costs of $20.

[You may draw on the graph to help you answer. The drawing will NOT be graded.]

35. See Scenario OPC. The monopolist will produce an output level of
   a. 10 units.
   b. 20 units.
   c. 80 units.
   d. 40 units.

36. See Scenario OPC. The monopolist will earn profits of
   a. $6,400.
   b. $800.
   c. $1,600.
   d. $3,200.

37. See Scenario OPC. Suppose now that the monopolist could price-discriminate perfectly. Her output level then would be
   a. 90.
   b. 60.
   c. 80.
   d. 40.
38. When the demand for a good increases and the supply of the good remains unchanged, consumer surplus
a. may increase, decrease, or remain unchanged.
b. increases.
c. is unchanged.
d. decreases.

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

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

40. See Figure MNC. In the short run, how many units of output will Pod produce?
a. 15
b. 30
c. 20
d. 0

41. See Figure MNC. In long-run equilibrium, Pod would produce approximately _____ units.
a. 40
b. 20
c. 50
d. 0

42. Which of the following is the best example of a positive externality?
a. a box of chocolates of higher than average quality
b. a restaurant that serves excellent food
c. cigarettes with a low cost of production
d. a student that asks good questions in class

Figure PAD. Apple and Samsung each has to decide how many television advertisements to run. Each one decides between few ads and many ads without knowing what the other one will do. The profit for each firm is given in the table as Profit for Apple, Profit for Samsung.

<table>
<thead>
<tr>
<th></th>
<th>Few</th>
<th>Many</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>1, 1</td>
<td>−2, 2</td>
</tr>
<tr>
<td>Samsung</td>
<td>2, −2</td>
<td>−3, −3</td>
</tr>
</tbody>
</table>

43. See Figure PAD. Each company would prefer
a. to run few ads whatever the other company does.
b. to adopt the advertising strategy that is the opposite of the other company’s.
c. to adopt an advertising strategy that is the same as the other company’s.
d. to run many ads whatever the other company does.

44. See Figure PAD. Which strategy profile maximizes the combined profits of the two companies?
a. \(\text{Many, Few}\)
b. \(\text{Few, Many}\)
c. \(\text{Many, Many}\)
d. \(\text{Few, Few}\)

45. See Figure PAD. Which of the following strategy profiles is not Pareto efficient?
a. \(\text{Few, Few}\)
b. \(\text{Few, Many}\)
c. \(\text{Many, Many}\)
d. \(\text{Many, Few}\)

46. Which of the following could be the cross-price elasticity of demand for two goods that are complements?
a. 0
b. 1.4
c. −1.3
d. 0.2

47. A reduction in a monopolist's fixed costs would
a. increase the profit-maximizing price and decrease the profit-maximizing quantity produced.
b. have an effect that depends on the elasticity of demand.
c. not affect the profit-maximizing price or quantity.
d. decrease the profit-maximizing price and increase the profit-maximizing quantity produced.
**Scenario RCG.** Michael has exactly 220 students in EC101 BB. He asks each student to close his eyes and raise either his left hand or his right hand, without knowing what other students are doing. If Michael sees an unequal number of right hands and left hands raised, he asks all students in the minority to pay $10 each, and he uses the total amount collected to make equal payments to all students in the majority. If the same number of students have raised their left hands and right hands, no one pays or receives anything.

48. **See Scenario RCG.** Suppose a student believes that among the other students, 119 will raise their left hands and 100 will raise their right hands. Then the student’s best response is
   a. to raise his left hand.
   b. to raise his right hand.
   c. to raise either his left or his right hand.
   d. **MORE** information needed

49. **See Scenario RCG.** If 110 students raise their left hands and 110 students raise their right hands, then which students will want to deviate?
   a. half of the students
   b. all students
   c. no students
   d. **MORE** information needed

50. **See Scenario RCG.** How many pure-strategy Nash equilibria does this game have?
   a. 3
   b. 2
   c. 1
   d. 0

**Scenario ONK.** Two firms, A and B, each produce the same product at \( AC = MC = 12 \). They each set prices: \( P_A \) and \( P_B \). If \( P_A \neq P_B \), consumers buy 20 units from the low-price firm, and 0 from the high-price firm. If \( P_A = P_B \), consumers buy 10 from each firm. The payoffs are the profits of each firm.

51. **See Scenario ONK.** Which of the following strategy profiles forms a Nash equilibrium?
   a. firm B charges $62 and A charges $12
   b. both firms charge $62
   c. both firms charge $12
   d. firm A charges $62 and B charges $12

52. **See Scenario ONK.** If both firms charge $52 per unit, then
   a. only firm B will want to deviate.
   b. only firm A will want to deviate.
   c. both firms will want to deviate.
   d. neither firm will want to deviate.

53. **See Scenario ONK.** If \( P_A = \$12 \), then what price is a best response for B?
   a. $32
   b. $12
   c. $62
   d. **ALL** of the above

**Figure REQ.** Firm A and firm B produce exactly the same product. They each set the quantity produced, but they accept the market price for their output. Market demand is given by \( Q_D = 70 - P \). For each firm, \( AC = MC = 10 \).

54. **See Figure REQ.** In order to maximize social surplus, firm A and firm B, together, should produce a total of ___ units.
   a. 0
   b. 70
   c. 60
   d. 25

55. **See Figure REQ.** If firm B plans to produce 10 units, firm A’s best response would be to produce ___ units.
   a. 60
   b. 70
   c. 25
   d. 0

56. **See Figure REQ.** In Nash equilibrium, each firm produces ___ units.
   a. 10
   b. 30
   c. 35
   d. 20
57. 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.

   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).

   ![Game Tree Diagram]

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

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

60. See Figure LFR. In a subgame-perfect equilibrium,
   Arthur gets ____ and Thea gets ____.
   a. 4; 5
   b. 7; 2
   c. 4; 1
   d. 8; 1