INSTRUCTIONS: Take out your pencils and your BU ID card.

ON YOUR QUESTION BOOKLET:
PRINT your name and Student ID Number [exactly as they appear on your BU ID Card], and then your Discussion Section Number (e.g. D5). Sign on the signature line.

ON YOUR GRADESCOPE BUBBLE SHEET:
In the boxes at the top-left of the bubble sheet:
- PRINT your NAME and Student ID, exactly as they appear on your BU ID Card.
  Include the ‘U’ in your ID.
- Print your discussion SECTION number (D1 - D9, E0 - E6) and Today’s Date in the boxes below.
- In the box at the top right, bubble your exam VERSION.
- Print your lecture section, (EC101DD or EC101EE) in the “Other” box.

Print neatly. 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 Bubble Sheet with the instructor or teaching fellow. Students in EC101 DD must give the TF both the Question Booklet and the Bubble Sheet at the end of the exam and exit from the front of the room. Students in EC101 EE should keep their Question Booklet and turn in only their Bubble Sheets. All students must show their BU Student IDs as to the TF 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 other answers can be justified by unusual assumptions.) On the Question Booklet, CIRCLE the answer that you chose. Then BUBBLE the answer on the Bubble Sheet.

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

***DO NOT sit near your friends during the exam.
***DO NOT write down your answers in large letters that others can see.
***YOU MAY NOT USE A CALCULATOR, CELL PHONE OR LAPTOP.

You have 2 hours to complete the exam. Good luck!

DO NOT OPEN THIS BOOKLET OR TURN IT OVER
[until told to do so]
Figure SSD. The graph below describes supply and demand for a perfectly competitive market.

1. See Figure SSD. In equilibrium, consumer surplus is
   a. $108.
   b. $36.
   c. $144.
   d. $72.

2. See Figure SSD. The equilibrium allocation of resources is
   a. efficient because total surplus is maximized when 12 units are produced and sold.
   b. inefficient because total surplus is maximized when 20 units of output are produced and sold.
   c. inefficient because consumer surplus is larger than producer surplus at the equilibrium.
   d. efficient because consumer surplus is maximized at the equilibrium.

3. See Figure SSD. If 10 units of the good are produced and sold, then
   a. the marginal cost of the last unit is the same as its marginal value to consumers.
   b. total surplus is minimized.
   c. producer surplus is maximized.
   d. the marginal value of the last unit to consumers exceeds its marginal cost.

4. In a complex economy, selling and buying is a more effective procedure for exchange than barter is, because
   a. tax laws do not apply to barter transactions.
   b. selling and buying requires the use of money.
   c. selling and buying makes it easier to find trading partners.
   d. selling and buying makes societies more stable.

5. A tax placed on a good with an upward-sloping supply curve and a downward-sloping demand curve
   a. causes the equilibrium quantity of the good to increase.
   b. affects the welfare of buyers of the good but not the welfare of sellers.
   c. causes an increase in the effective price paid by buyers.
   d. creates a burden that is borne entirely by consumers.

6. A shift to the right of the supply of lettuce could be caused by
   a. an advertisement showing a photo of Hillary Clinton eating lettuce.
   b. good weather in lettuce growing areas.
   c. a decrease in the price of lettuce.
   d. a report that lettuce prevents heart disease.

7. Compared to a person who earns $15 per hour, a person who earns $30 per hour has
   a. the same opportunity cost of spending time on leisure activities.
   b. a lower opportunity cost of driving farther to work.
   c. a lower opportunity cost of working longer hours.
   d. a higher opportunity cost of taking a day off.

8. A consumer is willing to pay $12 for his first beer, $8 for his second beer, $5 for his third beer, $3 for his fourth beer, and $1 for his fifth beer. If the price is $2, how much consumer surplus can he obtain?
   a. $18
   b. $22
   c. $20
   d. $16

9. In competitive economies, workers are often paid much more than would be required to make them willing to do their jobs, mainly because
   a. most firms are rent-seeking.
   b. firms will not pay economic rents to workers under competition.
   c. good workers receive economic rents when firms compete with each other for labor.
   d. firms cannot receive economic rents under competition.

10. If a consumer places a value of $15 on a particular good and if the price of the good is $17, then
    a. there is going to be downward pressure on the price of the good.
    b. the market is not a competitive market.
    c. the consumer has consumer surplus of $2 if he or she buys the good.
    d. the consumer does not purchase the good.
11. If the labor supply curve is extremely inelastic, a tax on labor
   a. has a large deadweight loss.
   b. raises a small amount of tax revenue.
   c. results in a large tax burden on the firms that hire labor.
   d. has little impact on the amount of work that workers are willing to do.

**Scenario MMON.** A small town has two bars in which residents can drink beer. Each bar owner must decide whether to set a high price or a low price for beer without knowing what the other bar owner has done. The payoff table, showing profit per week, is provided below. The profit in each cell is shown as (Bar 1, Bar 2).

<table>
<thead>
<tr>
<th></th>
<th>Low Price</th>
<th>High Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Price</td>
<td>(0, 400)</td>
<td>(300, 300)</td>
</tr>
<tr>
<td>High Price</td>
<td>(100, 100)</td>
<td>(400, 0)</td>
</tr>
</tbody>
</table>

12. **See Scenario MMON.** What is Bar 1’s dominant strategy?
   a. setting a low price
   b. choosing a high or low price at random
   c. setting a high price
   d. **NONE** of the above

13. **See Scenario MMON.** What is the Nash equilibrium of this price-setting game?
   a. Bar 1: Low price
      Bar 2: Low price
   b. Bar 1: High price
      Bar 2: Low price
   c. Bar 1: High price
      Bar 2: High price
   d. Bar 1: Low price
      Bar 2: High price

14. **See Scenario MMON.** This game is most similar to
   a. the Prisoners’ Dilemma
   b. Matching Pennies
   c. the Battle of the Sexes
   d. Offense vs. Defense

15. If a social planner were running a nondiscriminating monopoly, the planner could achieve an efficient outcome by charging a price at the
   a. intersection of the marginal cost curve and the demand curve.
   b. intersection of the average total cost curve and the demand curve.
   c. minimum point on the average total cost curve.
   d. intersection of the marginal cost curve and the marginal revenue curve.

16. Which of the following is the best example of rent-seeking?
   a. A secretary takes finance courses in order to qualify for a job as a financial adviser.
   b. An engineer volunteers for difficult jobs in order to convince his boss to raise his salary.
   c. The owner of a bar offers a large selection of draft beers in order to attract more customers.
   d. A student asks a professor to raise his grade in economics because he is in danger of losing his financial-aid package.

17. Bentley College offers Anandi a scholarship that reduces her tuition charge by $25,000. The economic cost of the scholarship to Bentley is
   a. $25,000.
   b. zero, because Bentley does not pay anything to the student or to her family.
   c. much less than $25,000 if Bentley has plenty of room for more students in its courses.
   d. $25,000 minus any other payments Anandi makes to Bentley.

**Scenario BRTD.** Two firms, A and B, each produce the same product at \( AC = MC = 1 \). They each set prices: \( P_A \) and \( P_B \). Prices can be anywhere between \$1 and \$51. 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.

18. **See Scenario BRTD.** How much profit does each firm receive if both firms charge \$21 per unit.
   a. $100
   b. 0
   c. $400
   d. $200

19. **See Scenario BRTD.** If both firms charge \$21 per unit, then
   a. both firms will want to deviate.
   b. only firm B will want to deviate.
   c. neither firm will want to deviate.
   d. only firm A will want to deviate.

20. **See Scenario BRTD.** Which of the following strategy profiles forms a Nash equilibrium?
   a. both firms charge $50
   b. both firms charge $1
   c. firm B charges $50 and A charges $1
   d. firm A charges $50 and B charges $1
**Scenario DRN.** The table below shows the payoffs to the running of positive and negative political advertisements by two candidates, a democrat and a republican. The payoffs represent the increase or decrease in the percentage of voters willing to vote for the candidate. Payoffs are displayed in the chart as (Democrat’s payoff, Republican’s payoff).

<table>
<thead>
<tr>
<th></th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democrat</td>
<td>(–4, +4)</td>
<td>(+3, –3)</td>
</tr>
<tr>
<td>Republican</td>
<td>(+5, –5)</td>
<td>(–2, +2)</td>
</tr>
</tbody>
</table>

Note: “Positive advertisements” say good things about the candidate; “negative advertisements” say bad things about the candidate’s opponent.

21. See Scenario DRN. For the Republican candidate, running a negative campaign
a. is not a strategy.
b. is a dominated strategy.
c. is a dominant strategy.
d. **NONE** of the above are correct

22. See Scenario DRN. How many pure-strategy Nash Equilibria does this game have?
   a. 0
   b. 1
   c. 2
   d. 4

23. See Scenario DRN. The Republican’s best response to a positive ad is a _____ ad, and his best response to a negative ad is a _____ ad.
   a. positive; negative
   b. negative; positive
   c. positive; positive
   d. negative; negative

24. If the price elasticity of demand for a good is –4.0, then a 10 percent increase in price results in a
   a. 40 percent decrease in the quantity demanded.
   b. 0.4 percent decrease in the quantity demanded.
   c. 2.5 percent decrease in the quantity demanded.
   d. 4 percent decrease in the quantity demanded.

25. In order to create capital goods, members of society must
   a. save less.
   b. pay taxes.
   c. enroll in their companies’ stock-option plans.
   d. sacrifice current consumption.

26. See Figure FMC. When market price is P3, a profit-maximizing firm's total revenue
   a. can be represented by the area $P_3 \times Q_3$.
   b. can be represented by the area $P_3 \times Q_2$.
   c. can be represented by the area $(P_3-P_2) \times Q_3$.
   d. is zero.

27. See Figure FMC. Firms will be encouraged to enter this market for all prices that are greater than
   a. P1.
   b. P2.
   c. P3.
   d. **NONE** of the above is correct.

28. See Figure FMC. Firms will shut down in the short run if the market price
   a. exceeds P3.
   b. is less than P1.
   c. is greater than P1 but less than P3.
   d. exceeds P2.

29. A natural monopoly occurs when
   a. the firm has a rising marginal cost curve.
   b. production requires the use of free natural resources, such as water or air.
   c. the product is sold in its natural state (such as water or diamonds).
   d. average cost is decreasing for quantities less than the quantity demanded.

30. Which of the following could be the cross-price elasticity of demand for two goods that are complements?
   a. 0.2
   b. 1.4
   c. –1.3
   d. 0
31. Negative externalities from a good create inefficiency, because
   a. the price of the good will be too high.
   b. production of the good involves private costs that are not opportunity costs.
   c. demand for the good is extremely elastic.
   d. too much of the good is produced and consumed.

32. The absolute value of the price elasticity of demand for a good will be relatively large when
   a. there are no good substitutes available for the good.
   b. the time period in question is relatively short.
   c. expenditures on the good are a large part of a person’s income.
   d. ALL of the above are correct.

33. Drug companies are allowed to be monopolists in the drugs they discover in order to
   a. allow drug companies to charge a price that is equal to their marginal cost.
   b. encourage research.
   c. allow the government to earn patent revenue.
   d. discourage new firms from entering the drug market.

34. You paid $9 to see a movie. Half an hour into the movie, you realize that it is a terrible movie and is not going to get any better. If you are rational in the economic sense, you should
   a. stay until the end because you already paid for it.
   b. leave immediately only if you can get a refund of the ticket price.
   c. wait another half hour because spending $9 for an hour is better than spending $9 for half an hour.
   d. leave immediately and do something more enjoyable.

35. If a duopoly has two price-taking firms that compete by setting quantities, then
   a. social surplus will be maximized.
   b. they will produce the same amount of output as in perfect competition.
   c. the market price will be greater than marginal cost.
   d. marginal revenue is the same as the market price.

36. For competitive firms without fixed costs, an increasing marginal cost curve is the same as the
   a. demand curve.
   b. production-possibility curve.
   c. supply curve.
   d. NONE of the above

37. Governments are usually involved in cleaning city streets, because
   a. private firms would set high prices for the service.
   b. there would be little competition among firms.
   c. anyone can enjoy clean streets without having to pay for them.
   d. street cleaning creates rent-seeking opportunities.

Figure CMOP. This graph illustrates the condition of one firm in the long-run equilibrium of a market characterized by monopolistic competition.

38. See Figure CMOP. Line Z on the graph represents
   a. average fixed cost
   b. average variable cost
   c. marginal revenue
   d. NONE of the above

39. See Figure CMOP. This monopolistic competitor will produce ____ units and charge about ____.
   a. 40; 4.30
   b. 20; 7.10
   c. 35; 5.00
   d. 50; 5.00

40. See Figure CMOP. The firm’s profits are
   a. 40
   b. –105
   c. 35
   d. 0

41. In markets without rent-seeking, the payment of economic rents increases economic efficiency, because economic rents
   a. are a reward for hard work.
   b. direct resources to the most productive use.
   c. reward people for financial investments.
   d. create jobs.
42. See Figure PFL. If the government imposes a price floor of $14 in this market, the result would be
   a. an excess supply of 40.
   b. an excess demand of 20.
   c. an excess supply of 20.
   d. an excess demand of 40.

43. See Figure PFL. If the government imposes a price ceiling of $12 in this market, the result would be
   a. neither an excess demand nor an excess supply.
   b. an excess supply of 20.
   c. an excess demand of 20.
   d. an excess supply of 10.

44. See Figure PFL. Which of the following cases would lead to nonprice rationing?
   a. A price ceiling is set at $12.
   b. A price ceiling is set at $8.
   c. A price floor is set at $8.
   d. A price floor is set at $10.

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

46. Which is a likely outcome inside the United States of increased exports of manufactured goods?
   a. Unemployment in the industrial sector.
   b. Some manufacturing firms go out of business.
   c. Producers of manufactured products lose surplus.
   d. Consumers of manufactured products lose surplus.

47. See Figure MND. In order to maximize profits, the monopolist should charge a price of
   a. $9.
   b. $12.
   c. $20.
   d. $23.

48. See Figure MND. The monopolist would earn total revenues of
   a. $81.
   b. $144.
   c. $225.
   d. $240.

49. See Figure MND. The monopolist would earn profits of
   a. $96.
   b. $117.
   c. $120.
   d. $126.

50. The typical firm in the US economy
   a. is a monopoly.
   b. sells its product for a price that is equal to the marginal cost of producing the last unit.
   c. faces a downward sloping demand curve.
   d. is perfectly competitive.

51. A market demand curve specifies
   a. what price sellers will set.
   b. the quantity purchased.
   c. how much all consumers would want to buy at various prices.
   d. the determinants of individual demand.
52. A monopolist can sell 200 units of output for $36.00 per unit. Alternatively, it can sell 201 units of output for $35.80 per unit. The marginal revenue of the 201st unit of output is
   a. $-4.20.
   b. $35.80.
   c. $-0.20.
   d. $4.20.

53. If an externality is present in a market, economic efficiency is likely to be increased by
   a. better informed market participants.
   b. government intervention.
   c. increased competition.
   d. weakening property rights.

54. In game theory, a strategy is defined as
   a. any action that affects the players’ payoffs.
   b. the set of all actions that a given play is permitted to take.
   c. an action chosen at random.
   d. a plan that specifies an action for every situation that could be observed.

55. For markets to work well, there must be
   a. voluntary exchange.
   b. resources that are not scarce.
   c. a central planner.
   d. market power.

56. If the price of salt increases, then
   a. the income effect will be large, because salt is a necessity.
   b. the income effect will be small, because salt is a small part of the consumer budget.
   c. the income effect will be equal and opposite the substitution effect.
   d. the demand curve for salt will shift to the left.

57. Social surplus is maximized
   a. by a nondiscriminating monopolist.
   b. by a monopolist with perfect price discrimination.
   c. under monopolistic competition.
   d. **NONE** of the above

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**Scenario HSX.** Pancho and Andrea each own a jewelry store that sells precious emeralds. The two stores compete with each other. Each owner has to choose from two prices: a high price (H) or a low price (L). Pancho has promised to announce his price on Tuesday. Andrea will see what price Pancho announces, and then announce her own price the next morning. The following chart represents the actions of the two owners. Profits for each store are in parenthesis: (Pancho’s profits, Andrea’s profits).

<table>
<thead>
<tr>
<th>Pancho</th>
<th>Andrea</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>H</td>
<td>L</td>
</tr>
<tr>
<td>L</td>
<td>H</td>
</tr>
</tbody>
</table>

58. **See Scenario HSX.** Pancho must choose a strategy from a set of ____ possible strategies; Andrea must choose a strategy from a set of ____ possible strategies.
   a. 2; 4
   b. 2; 2
   c. 4; 2
   d. 4; 4

59. **See Scenario HSX.** Which strategy will Andrea adopt in subgame-perfect Nash equilibrium?
   a. always charge a high price
   b. charge the same price as Pancho
   c. charge a high price when Pancho charges a low price, and vice versa.
   d. always charge a low price

60. **See Scenario HSX.** Which strategy will Pancho adopt in subgame-perfect Nash equilibrium?
   a. charge the same price as Andrea
   b. charge a low price
   c. charge a high price
   d. charge a high price when Andrea charges a low price, and vice versa.
MULTIPLE CHOICE

1. D 45. D
2. A 46. D
3. D 47. C
4. C 48. D
5. C 49. C
7. D 51. C
8. C 52. A
10. D 54. D
11. D 55. A
12. C 56. B
13. B 57. B
14. A 58. A
15. A 59. D
16. D 60. B
17. C
18. A
19. A
20. B
21. D
22. A
23. A
24. A
25. D
26. B
27. C
28. B
29. D
30. C
31. D
32. C
33. B
34. D
35. C
36. C
37. C
38. C
39. B
40. D
41. B
42. A
43. A
44. B