

Find

1104 D FO 8

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

V/T	F			
61	A	B	D	E
62	A	B	D	E
63	A	B	D	E
64	A	B	D	E
65	A	B	D	E
66	A	B	D	E
67	A	B	D	E
68	A	B	D	E
69	A	B	D	E
70	A	B	D	E
71	A	B	D	E
72	A	B	D	E
73	A	B	D	E
74	A	B	D	E
75	A	B	D	E
76	A	B	D	E
77	A	B	D	E
78	A	B	D	E
79	A	B	D	E
80	A	B	D	E
81	A	B	D	E
82	A	B	D	E
83	A	B	D	E
84	A	B	D	E
85	A	B	D	E
86	A	B	D	E
87	A	B	D	E
88	A	B	D	E
89	A	B	D	E
90	A	B	D	E
91	A	B	D	E
92	A	B	D	E
93	A	B	D	E
94	A	B	D	E
95	A	B	D	E
96	A	B	D	E
97	A	B	D	E
98	A	B	D	E
99	A	B	D	E
100	A	B	D	E
101	A	B	D	E
102	A	B	D	E
103	A	B	D	E
104	A	B	D	E
105	A	B	D	E
106	A	B	D	E
107	A	B	D	E
108	A	B	D	E
109	A	B	D	E
110	A	B	D	E
111	A	B	D	E
112	A	B	D	E
113	A	B	D	E
114	A	B	D	E
115	A	B	D	E
116	A	B	D	E
117	A	B	D	E
118	A	B	D	E
119	A	B	D	E
120	A	B	D	E

V/T	F			
121	A	B	D	E
122	A	B	D	E
123	A	B	D	E
124	A	B	D	E
125	A	B	D	E
126	A	B	D	E
127	A	B	D	E
128	A	B	D	E
129	A	B	D	E
130	A	B	D	E
131	A	B	D	E
132	A	B	D	E
133	A	B	D	E
134	A	B	D	E
135	A	B	D	E
136	A	B	D	E
137	A	B	D	E
138	A	B	D	E
139	A	B	D	E
140	A	B	D	E
141	A	B	D	E
142	A	B	D	E
143	A	B	D	E
144	A	B	D	E
145	A	B	D	E
146	A	B	D	E
147	A	B	D	E
148	A	B	D	E
149	A	B	D	E
150	A	B	D	E
151	A	B	D	E
152	A	B	D	E
153	A	B	D	E
154	A	B	D	E
155	A	B	D	E
156	A	B	D	E
157	A	B	D	E
158	A	B	D	E
159	A	B	D	E
160	A	B	D	E
161	A	B	D	E
162	A	B	D	E
163	A	B	D	E
164	A	B	D	E
165	A	B	D	E
166	A	B	D	E
167	A	B	D	E
168	A	B	D	E
169	A	B	D	E
170	A	B	D	E
171	A	B	D	E
172	A	B	D	E
173	A	B	D	E
174	A	B	D	E
175	A	B	D	E
176	A	B	D	E
177	A	B	D	E
178	A	B	D	E
179	A	B	D	E
180	A	B	D	E

80. The Asian Development Bank has been investing in education and training programs in the developing economies of Asia over the last five years. As a result of this investment, economists who adhere to the human capital view of education would predict
- rising wages as labour productivity is enhanced.
 - falling wages as the labour market is saturated with too many educated workers.
 - the marginal productivity of capital would not be affected.
 - the marginal productivity of labour would not be affected.
81. Economists who attempt to explain the increasing earnings gap between skilled and unskilled workers offer two main hypotheses. Both hypotheses
- suggest that demand-and-supply conditions have played a less important role in determining workers' wages in recent years.
 - suggest that, over time, the demand for skilled labour has risen relative to the demand for unskilled labour.
 - emphasize the growing importance of international trade in recent years.
 - emphasize the growing importance of women and teenagers in the workforce in recent years.
82. Economists who study economic mobility have found that the income of a grandfather and his grandson's income are
- not related.
 - negatively related.
 - directly related.
 - exactly equal.

Short-Answer Questions (23 points)

Answer in the space provided.

83. (3 points) Many anti-poverty groups use LICO as a measure of poverty. What are the limits of this measure?
- LICO is a relative measure of poverty, not an absolute measure of poverty. As such, it is more a measure of income inequality than of poverty.
 - Does not include in-kind transfers - overestimate level of income inequality
 - Poor indicator of economic progress, because as the economy grows, income grows on average and LICO moves up with it.

84. (5 points) Consider total cost and total revenue given in the table below:

Quantity	Total Cost (\$)	Total Revenue (\$)
0	4	0
1	6	5
2	9	10
3	14 15	15
4	20 22	20
5	27 30	25
6	38 39	30

MR MC
 5 5 5 5 5
 2
 3
 5
 8
 9

(a) Calculate marginal revenue and marginal cost for each quantity.

②

(b) How much should the firm produce to maximize profit?

Firm should produce 2

①

(c) Can you tell whether this firm is in a competitive industry?

Yes because $P = 5$ constant

①

(d) Can you tell whether the industry is in a long-run equilibrium?

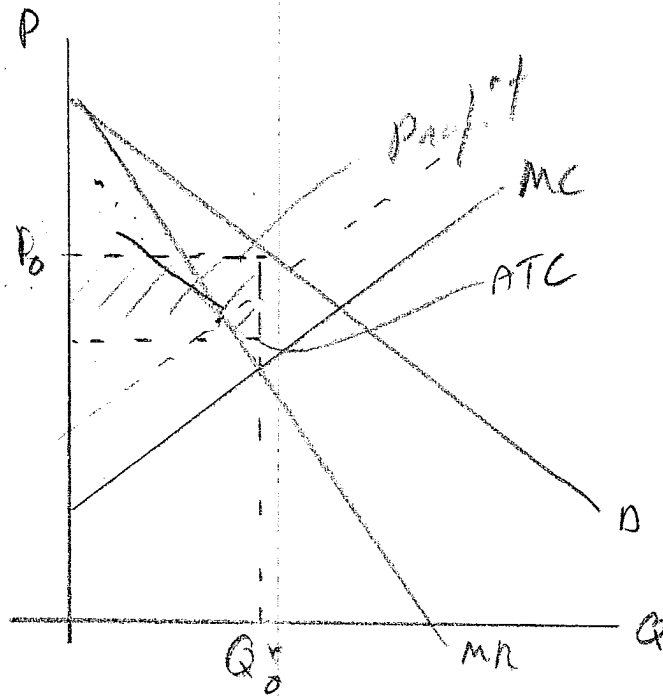
Not in long-run equilibrium since Profit > 0

①

85. (15 points) The Feelgood Drug Company holds a patent on one of its discoveries.

(a) Assuming that the production of the drug involves rising marginal cost, draw a diagram to illustrate Feelgood's profit maximizing price and quantity. Also show Feelgood's profits.

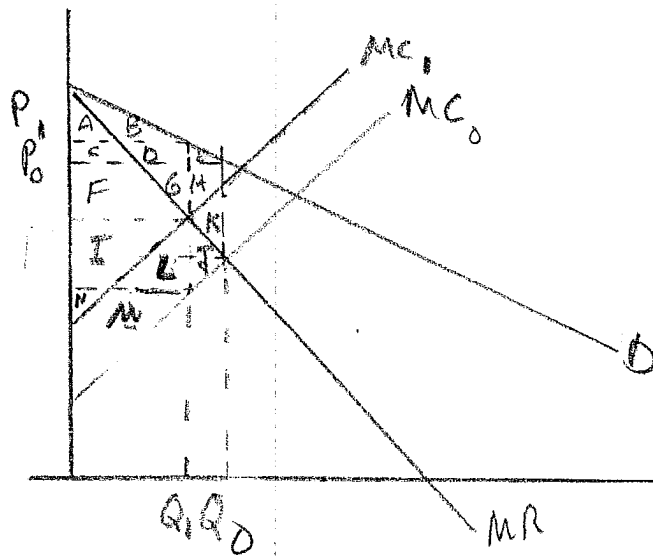
5



(b) Now, suppose the government imposes a tax on each bottle of the drug produced. On a new diagram, illustrate Feelgood's new price and quantity. How does each compare to your answer in part (a)?

the situation with no tax?

5



P_1 : new price
 Q_1 : new quantity

$P_1 > P_0$

$Q_1 < Q_0$

(c) What is the impact of this tax on welfare? Explain.

	Before	After	Δ
CS	A+B+C+D+E	A+B	-(C+D+E)
PS	F+G+H+I+J +K+L+M+N	C+D+E+I G+H+N	C+D - (H+I+J+K+L)
Tax	0	I+L	I+L
TS	A+B+C+D+E +F+G+H+I +J+K+L+M+N	A+B+C +D+E+I+G +H+L+M+N	-(E+H+J+K)

∴ net welfare by E+H+J+K

Note: Other faster way I see (see below)

(d) Instead of the tax per bottle, suppose that the government imposes a tax on Feelgood of \$10 million regardless of how many bottles are produced. How does this tax affect Feelgood's price, quantity, and profits? Explain.

- (2) - Price and quantity would not vary as tax does not affect MC.
- Profits would go down by \$10 million.

(4) Impact on welfare: area between Q_0^+ and Q_1^+ where Social Value > Social cost that is where the Demand curve is above MC curve
⇒ area E+H+J+K