

NE

CARLETON UNIVERSITY

MIDTERM
EXAMINATION
DECEMBER 2010

DURATION: 2.5 HOURS

No. of Students: 1515

Department Name & Course Number: ECON 1000/1001 A, B, C, D, V
Course Instructor(s): N. Rowe, G. Kowalski, V. Dehejia, T. Joseph,
M. Francis

Authorized Memoranda

None.

Students **MUST** count the number of pages in this examination question paper before beginning to write, and report any discrepancy immediately to a proctor. This question paper has 9 pages.

This examination paper **MAY** be taken from the examination room.

In addition to this question paper, students require: two (2) examination booklets yes no
a Scantron sheet yes no

PLEASE READ ALL INSTRUCTIONS CAREFULLY

Note: This examination has three (3) sections

PART A: MULTIPLE CHOICE (20 questions, 2 marks each). Answer ALL questions. Detach answer sheet from examination paper and hand in answer sheet with exam booklets. USE BLOCK CAPITAL LETTERS. (Total 40 Marks).

PART B: SHORTER QUESTIONS: Answer any FIVE (5) of the questions. Each question is worth 8 marks. Answer in exam booklet. (Total 40 Marks)

PART C: LONGER QUESTIONS: Answer any ONE (1) of the questions. Each question is worth 20 marks. Answer in exam booklet. (Total 20 Marks)

Please note: Answer Parts B & C in separate exam booklets.

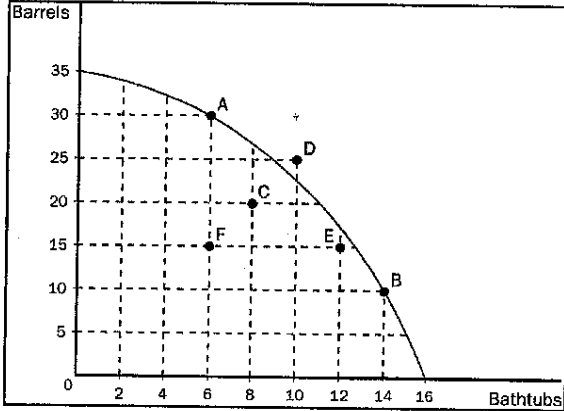
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Multiple Choice

Identify the choice that best completes the statement or answers the question.

Figure 2-8



1. Refer to Figure 2-8. If this economy puts all of its resources into the production of bathtubs it could produce
 - a. 20 barrels and 12 bathtubs.
 - b. 35 barrels and no bathtubs.
 - c. no barrels and 16 bathtubs.
 - d. This economy would not choose to put all of its resources into the production of one good.

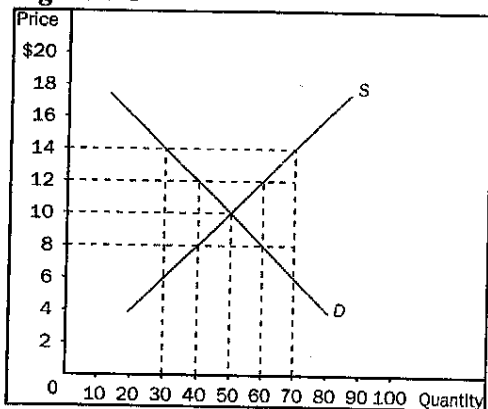
Table 3-5

	Labour hours needed to make one unit of		Amount produced in 40 hours	
	Cheese	Bread	Cheese	Bread
England	1	2	40	20
Spain	2	8	20	5

2. Refer to Table 3-5. The opportunity cost of 1 unit of cheese in England is
 - a. 4 breads.
 - b. 2 breads.
 - c. 1/2 bread.
 - d. 1/4 bread.
3. Price takers have no influence over market prices because there are
 - a. numerous buyers.
 - b. numerous sellers.
 - c. distinctive products.
 - d. Both a and b are correct.

MK

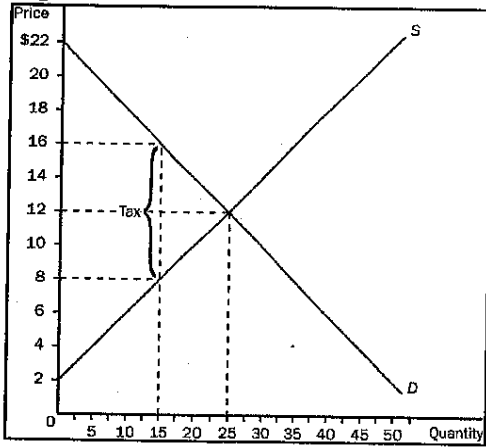
4. A monopoly is a market
 - a. with one seller.
 - b. with few sellers.
 - c. with one buyer.
 - d. with many buyers.
 - e. where the government sets the price.

Figure 4-8

5. Refer to Figure 4-8. If price in this market is currently \$14, there would be a
 - a. shortage of 20 units and price would tend to rise.
 - b. surplus of 20 units and price would tend to fall.
 - c. shortage of 40 units and price would tend to rise.
 - d. surplus of 40 units and price would tend to fall.
6. In the case of perfectly inelastic demand,
 - a. the change in quantity demanded will be twice the change in price.
 - b. huge changes in quantity demanded result from very small changes in the price.
 - c. the change in quantity demanded exactly equals the change in price.
 - d. None of the above are correct.
7. Producer surplus is the
 - a. area under the supply curve to the left of the amount sold.
 - b. amount a seller is paid less the cost of production.
 - c. amount represented by the area under the supply curve.
 - d. cost to sellers of participating in a market.
8. Which of the following is the most correct statement about tax burdens?
 - a. A tax burden falls most heavily on the side of the market that is elastic.
 - b. A tax burden falls most heavily on the side of the market that is inelastic.
 - c. A tax burden falls most heavily on the side of the market that is closer to unit elastic.
 - d. A tax burden is distributed independently of relative elasticities of supply and demand.

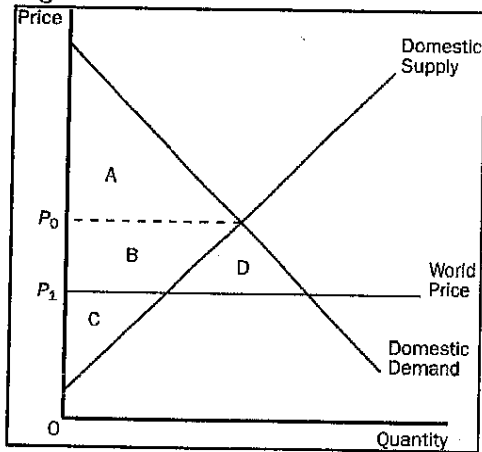
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Figure 8-6



9. Refer to Figure 8-6. The total surplus before the tax would equal
- \$350.
 - \$300.
 - \$250.
 - \$200.

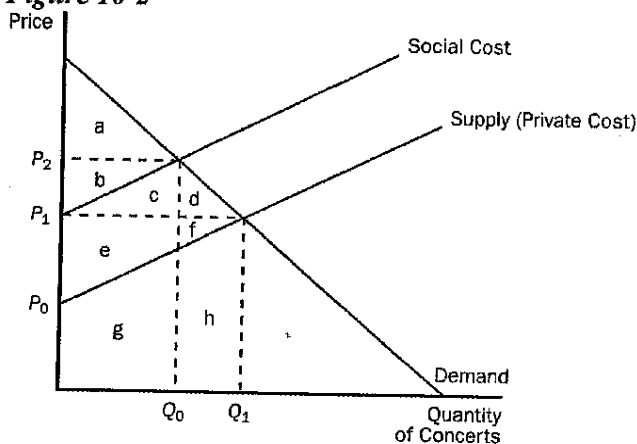
Figure 9-10



10. Refer to Figure 9-10. Producer surplus in this market before trade would be
- C.
 - B + C.
 - A + B + D.
 - B + C + D.
11. A tariff and an import quota will both
- increase the quantity of imports and raise domestic price.
 - increase the quantity of imports and lower domestic price.
 - reduce the quantity of imports and raise domestic price.
 - reduce the quantity of imports and lower domestic price.

This figure reflects the market for outdoor concerts in a public park surrounded by residential neighborhoods.

Figure 10-2



12. Refer to Figure 10-2. Total surplus derived from the most efficient outcome is represented by the area
 - a. $a + b$.
 - b. $a + b + c + d + e + f$.
 - c. $a + b + c + e + g$.
 - d. $a + b + c + d$.
13. A certain competitive firm sells its output for \$20 per unit. The 50th unit of output that the firm produces has a marginal cost of \$22. It follows that the production of the 50th unit of output
 - a. increases the firm's total revenue by \$20.
 - b. increases the firm's total cost by \$22.
 - c. decreases the firm's profit by \$2.
 - d. All of the above are correct.
14. Which of the following statements is (are) true of monopolies?
 - a. Monopolies are constrained by market demand.
 - b. Monopolies benefit from barriers to entry.
 - c. Monopolies have the ability to set the prices of their products.
 - d. All of the above are correct.
15. Assuming that oligopolists do not have the opportunity to collude, once they have reached the Nash equilibrium, it
 - a. is always in their best interest to supply more to the market.
 - b. is always in their best interest to supply less to the market.
 - c. is always in their best interest to leave their quantities supplied unchanged.
 - d. may be in their best interest to do any of the above, depending on market conditions.
16. The prisoners' dilemma provides insights into the
 - a. difficulty of maintaining cooperation.
 - b. benefits of avoiding cooperation.
 - c. benefits of government ownership of monopoly.
 - d. ease with which oligopoly firms maintain high prices.

2.

17. In a monopolistically competitive industry, firms' demand curves also represent
 - a. marginal revenue.
 - b. marginal cost.
 - c. average revenue.
 - d. profit.

18. Since a firm in a monopolistically competitive market faces a
 - a. downward-sloping demand curve, it will always operate with excess capacity.
 - b. downward-sloping demand curve, it will always operate at efficient scale.
 - c. perfectly elastic demand curve, it will always operate with excess capacity.
 - d. perfectly inelastic demand curve, it will always operate at efficient scale.
 - e. perfectly elastic demand curve, it will always operate at efficient scale.

19. The value of the marginal product of labour is calculated by multiplying the
 - a. price of output by the quantity of labour.
 - b. price of output by the marginal product of labour.
 - c. wage by the quantity of labour.
 - d. wage by the marginal product of labour.

20. An increase in the value of the marginal product of labour has the effect of increasing the
 - a. demand for labour.
 - b. wage.
 - c. quantity of labour employed.
 - d. All of the above are correct.

PART A. Multiple Choice. USE THE ANSWER SHEET PROVIDED.

Answer ALL 20 questions. Two marks each.

PART B. Short Answer. USE THE MAIN BOOKLET.

Answer ANY 5 of the following questions. Eight marks each.

1. Suppose we observe that the price of peanut butter rises and consumption of peanut butter rises at the same time. Is this observation consistent with the “Law of Demand”? What must have happened in the market for peanut butter? Explain your answer using supply and demand curves.
2. Define “marginal product” and “marginal cost”. Explain what is meant by “diminishing marginal product”. Explain the relationship between diminishing marginal product and the shape of the marginal cost curve. Draw a marginal product curve and a marginal cost curve to illustrate your answer.
3. Explain what is meant by “opportunity cost”. Explain the difference between “economic profits” and “accounting profits”. If firms in a competitive industry are earning zero economic profits, explain whether this can be a long-run equilibrium.
4. If the government places a \$1 tax on each kilogram of apples sold, use a diagram to explain how this will affect producer surplus and consumer surplus. Would there be a deadweight loss if the supply of apples were perfectly inelastic? Explain.
5. Explain what is meant by a “cartel”. Explain why firms would want to create a cartel. Explain the problems that firms face when they try to create a cartel.
6. Explain, with the aid of a diagram, how a negative externality will create a net welfare loss. Explain what is meant by a Pigou tax. Explain whether a Pigou tax would cause a deadweight loss.
7.
 - A) Some goods are “non-excludable”. Explain what this means. Explain why it creates a problem for markets.
 - B) Some goods are “non-rival”. Explain what this means. Explain why it creates a problem for markets.
8.
 - A) Using a diagram, explain the effects of a binding price ceiling on price and quantity.
 - B) Using a diagram, explain the effects of a binding price floor on price and quantity.

- C) If the government wanted to encourage people to consume more cabbage, would it be a good policy to: impose a binding price ceiling on cabbage; impose a binding price floor on cabbage; or neither? Explain.
9. A) Explain how to derive the short-run supply curve for a perfectly competitive firm.
B) Explain how to derive the short-run supply curve for a perfectly competitive industry.
C) Explain how an increase in the price of the variable input will affect those two supply curves.
10. Larry, Curly, and Moe run the only saloon in town. Larry wants to sell as many drinks as possible without losing money. Curly wants to maximize total revenue. Moe wants to maximize profit. Use a diagram to illustrate the combinations of price and quantity that each wants.

PART C. Long Answer. USE THE EXTRA BOOKLET.

Answer ANY ONE question. 20 marks.

1. A) Suppose that the world price of plums is below the Canadian price before international trade in plums is allowed. Using a diagram, explain how free trade in plums will affect the Canadian price of plums, Canadian consumption and production of plums, and the welfare of Canadian consumers and producers of plums.
- B) Using a second diagram, starting in the free trade equilibrium, show the effect of a tariff on imported plums on the welfare of Canadian consumers and producers of plums.
2. There are many hairdressing salons in Ottawa. Because each salon is different, a salon that raises its price above other salons will lose some customers but not all. There is free entry and exit of salons. Use a diagram to show the initial long run equilibrium price and quantity of a typical salon. Now suppose there is an increased demand for haircuts. Explain how this will affect the typical salon, first in the short run, then in the long run.
3. Economists usually say that perfect competition is “good” and monopoly is “bad”. What exactly is good about perfect competition, and what exactly is bad about monopoly? If a monopoly has increasing returns to scale, would it be a good policy for the government to break the monopoly into 100 small competing firms? Explain, with the aid of diagrams.

M

PART A. MULTIPLE CHOICE ANSWER SHEET

NAME _____
[SURNAME, GIVEN NAME]
STUDENT NUMBER _____

USE UPPER CASE LETTERS TO ANSWER.

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____
- 6. _____
- 7. _____
- 8. _____
- 9. _____
- 10. _____
- 11. _____
- 12. _____
- 13. _____
- 14. _____
- 15. _____
- 16. _____
- 17. _____
- 18. _____
- 19. _____
- 20. _____