ECONOMICS 1021A-002
Western University
J. Gillmore **Final Review** **December, 2012**

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Use the figure below to answer the following questions.

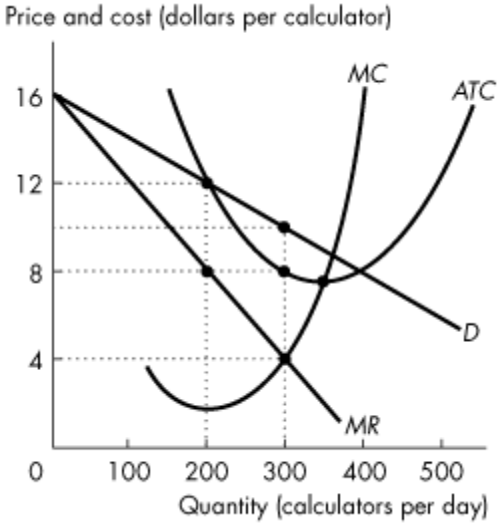

Figure 1

1) Refer to Figure 1 The figure shows the situation facing Smart Digit, Inc., a firm in monopolistic competition that produces calculators. What is the firm's economic profit per day?
   A) less than zero
   B) between $1 and $700
   C) between $701 and $900
   D) zero
   E) more than $901

2) Refer to Figure 1. The figure shows the situation facing Smart Digit, Inc., a firm in monopolistic competition that produces calculators. The firm's markup is _____ per calculator.
   A) $6
   B) zero
   C) $10
   D) $2
   E) $4

Use the figure below to answer the following question.

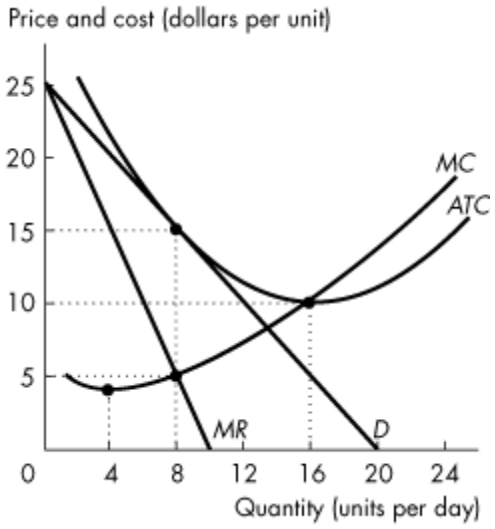

Figure 2

3) Refer to Figure 2. The figure shows the demand, marginal revenue, and cost curves for a monopolistically competitive firm in the long run. The firm has excess capacity of
   A) $10.
   B) 8 units.
   C) $5.
   D) 4 units.
   E) 16 units.

Use the information below to answer the following question.

Fact 1

Suppose that at one of the Talbot's shops, marginal cost of a coat is constant at $150, and total fixed cost is $3,000 a day. The shop maximizes its profit by selling 15 coats a day at $500 per coat. Then the shops nearby increase their advertising. The Talbot shop responds by spending $1,500 a day more on advertising its coats. As a result, its profit–maximizing number of coats sold increases to 25 a day at $400 per coat.

4) Refer to Fact 1. As a result of increased advertising, Talbot's markup
   A) increases by $75.
   B) increases by $50.
   C) decreases by $100.
   D) decreases by $60.
   E) decreases by an unknown amount.

Refer to the table below to answer the following questions.

Table 1

		Dr. Smith	
		Advertise	Don't Advertise
Dr. Jones	Advertise	S: $80 J: $70	S: $60 J: $110
	Don't Advertise	S: $120 J: $60	S: $100 J: $90

5) Refer to Table 1. Libertyville has two optometrists, Dr. Smith and Dr. Jones. Each optometrist can choose to advertise his service or not. The incomes of each optometrist, in thousands of dollars, are given in the payoff matrix above. Which of the following statements correctly describes Dr. Smith's strategy given what Dr. Jones may do?
   A) Dr. Smith does not advertise no matter what Dr. Jones does.
   B) Dr. Smith advertises only if Dr. Jones advertises.
   C) Dr. Smith does not advertise if Dr. Jones advertises.
   D) Dr. Smith advertises no matter what Dr. Jones does.
   E) Dr. Smith advertises only if Dr. Jones doesn't advertise.

6) Refer to Table 1. Libertyville has two optometrists, Dr. Smith and Dr. Jones. Each optometrist can choose to advertise his service or not. The incomes of each optometrist, in thousands of dollars, are given in the payoff matrix above. Which of the following statements correctly describes Dr. Jones' strategy given what Dr. Smith may do?
   A) Dr. Jones advertises no matter what Dr. Smith does.
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   D) Dr. Jones does not advertise if Dr. Smith advertises.
   E) Dr. Jones advertises only if Dr. Smith doesn't advertise.

7) Refer to Table 1. Libertyville has two optometrists, Dr. Smith and Dr. Jones. Each optometrist can choose to advertise his service or not. The incomes of each optometrist, in thousands of dollars, are given in the payoff matrix above. Which of the following statements correctly categorizes the Nash equilibrium for the game?
   A) The game has a Nash equilibrium in which Dr. Smith advertises and Dr. Jones does not advertise.
   B) The game has a Nash equilibrium in which both optometrists do not advertise.
   C) The game has a Nash equilibrium in which Dr. Smith does not advertise and Dr. Jones does advertise.
   D) The game has a Nash equilibrium in which both optometrists advertise.
   E) The game has no Nash equilibrium.

Use the table below to answer the following questions.

Table 2

Output (units)	Marginal Social Benefit (dollars)	Marginal Private Cost (dollars)	Marginal Social Cost (dollars)
0	80	0	20
1	70	10	30
2	60	20	40
3	50	30	50
4	40	40	60
5	30	50	70
6	20	60	80

8) Refer to Table 2. Given in the table are the marginal private cost and the marginal social cost of the production of chemical fertilizer and the marginal social benefit from the consumption of fertilizer. If the market is unregulated, the quantity produced is
   A) 2 units.
   B) 1 unit.
   C) 3 units.
   D) 4 units.
   E) 5 units.

9) Refer to Table 2. Given in the table are the marginal private cost and the marginal social cost of the production of chemical fertilizer and the marginal social benefit from the consumption of fertilizer. If the government decides to correct the externality problem, it could
   A) subsidize production by $10 per unit.
   B) subsidize production by $20 per unit.
   C) tax production by $20 per unit.
   D) tax production by $10 per unit.
   E) provide the good itself.

Use the figure below to answer the following question.

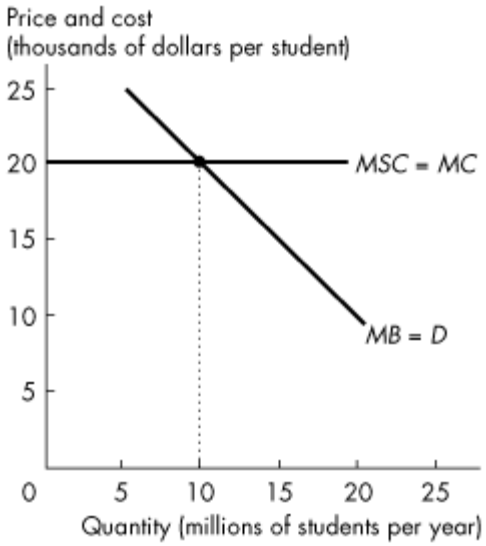

Figure 3

10) Refer to Figure 3. The figure shows the marginal private benefit and marginal social cost of a university education. If society's external benefit from university graduates is $10,000 each, then
A) a subsidy of $10,000 per student paid to the universities achieves efficiency.
B) 10 million students per year is the efficient number students.
C) a tax of $10,000 per student imposed on the universities achieves efficiency.
D) a subsidy of $20,000 per student paid to the universities achieves efficiency.
E) none of the above answers are correct.

Use the table below to answer the following questions.

Table 3

Labour (workers)	Output (units)
0	0
1	5
2	11
3	18
4	26
5	32
6	37
7	41
8	44
9	46
10	47

11) Refer to Table 3. If the firm can sell all the output it wants for the price of $5 a unit, what is the value of marginal product of the 6th worker?
   A) $20
   B) $40
   C) $0
   D) $185
   E) $25

12) Refer to Table 3. If the firm can sell all the output it wants for the price of $5 a unit, what is the profit-maximizing number of workers if the wage rate is $30?
   A) 5
   B) 6
   C) 7
   D) 1
   E) 3

Use the figure below to answer the following question.

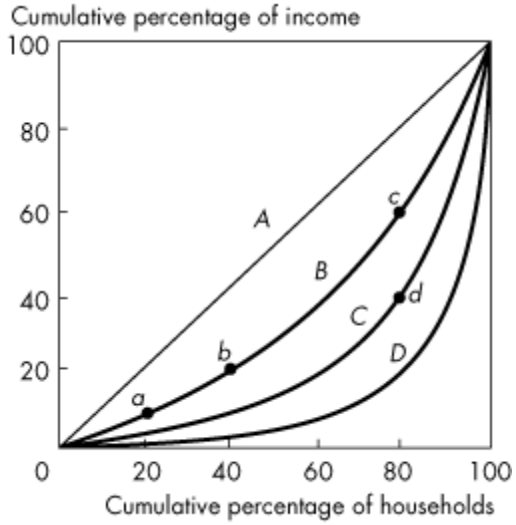

Figure 4

13) Consider the Lorenz curves in Figure 4. Which Lorenz curve corresponds to the greatest income inequality?
A) *A*
B) *B*
C) *C*
D) *D*
E) impossible to tell without additional information

14) The Gini coefficient for a perfectly equal distribution of income is
A) negative.
B) equal to zero.
C) equal to 100.
D) equal to infinity.
E) equal to 1.

Use the figure below to answer the following question.

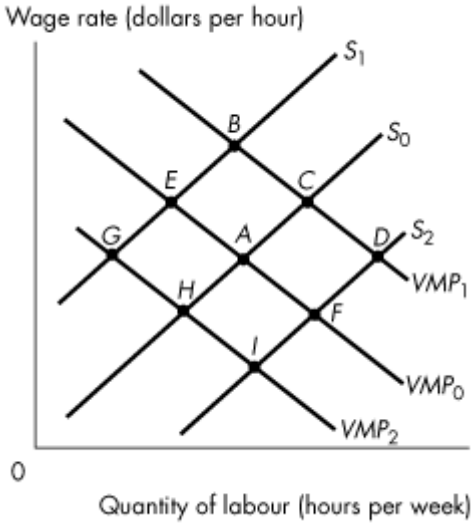

Figure 5

15) Refer to Figure 5. If this is the market for a group of workers who are discriminated against by customers and point *A* represents the equilibrium without discrimination, which point represents the equilibrium for the workers who are discriminated against?
   A) *D*
   B) *B*
   C) *I*
   D) *C*
   E) *H*

1) B
2) A
3) B
4) C
5) D
6) A
7) D
8) D
9) C
10) A
11) E
12) A
13) D
14) B
15) E