ECO 111   Name (Print): _____
Fall 2018
Midterm Exam
10/11/2018
Time Limit: 75 Minutes

This exam contains 8 short answer questions, 1 longer answer question, and 2 long answer questions. You must complete all short answer and longer answer questions; however, you only need to complete 1 of the long answer questions. Check to see if any pages are missing.

You may *not* use your books or notes on this exam. Calculators are permitted.

You are required to show your work on each problem on this exam. The following rules apply:

- **Organize your work**, in a reasonably neat and coherent way, in the space provided. Work scattered all over the page without a clear ordering will receive very little credit.

- **Show your work**. A correct answer, unsupported by calculations, explanation, or algebraic work will receive no credit; an incorrect answer supported by substantially correct calculations and explanations might still receive partial credit.

- If you need more space, use the back of the pages; clearly indicate when you have done this.

Multiple Choice: Circle the correct answer.

1. (5 points) An increase in equilibrium price can be caused by

   A. more consumers entering the market and a decrease in the price of inputs.
   B. a decrease in income.
   C. an increase in income.
   D. all of the above.

2. (5 points) Suppose that an increase in the price of melons from 1.30 dollars to 1.80 dollars per pound increases the quantity of melons that melon farmers produce from 1.2 million pounds to 1.6 million pounds. Using the midpoint method, what is the approximate value of the price elasticity of supply?

   A. 0.67
   B. 0.89
   C. 1.00
   D. 1.13

3. (5 points) What is another name for marginal?

   A. extra.
   B. additional.
   C. one more.
   D. all of the above.

4. (5 points) Which of the following is a positive, as opposed to a normative, statement?

   A. The US Department of Justice should allow a merger between AT&T and T-Mobile because it would have little effect on consumers.
   B. Antitrust laws should be used to prevent further concentration in the wireless telephone service market.
   C. The US Department of Justice sued AT&T to block its merger with T-Mobile.
   D. The wireless telephone service market is too highly concentrated.

5. (5 points) In a free and perfectly competitive market, consumers and firms are informed, directed, and motivated by

   A. price.
   B. supply.
   C. demand.
   D. quantity supplied.

6. (5 points) Welfare economics is the study of

   A. taxes and subsidies.
   B. how technology is best put to use in the production of goods and services.
   C. government welfare programs for needy people.
   D. how the allocation of resources affects economic well-being.

7. (5 points) The principle of comparative advantage states that, regardless of the price at which trade takes place, everyone will benefit from trade if they specialize in the production of the good for which they have a comparative advantage.

   A. True
   B. False

8. (5 points) When the price of knee braces increased by 25 percent, the Brace Yourself Company increased its quantity supplied of knee braces per week by 75 percent. BYC's price elasticity of supply of knee braces is 0.33.

   A. True
   B. False

Longer Answer Question: Please answer the following. Be sure to label any graphs.

1. (30 points)

Minutes Needed to Make 1

	Laser Disks	Lasers
Russia	30	15
England	60	10

   (a) (15 points) Which country has the absolute advantage in laser disks? Which country has the absolute advantage in lasers?

   (b) (15 points) If these two countries were to engage in trade, who would sell what good? Why? Show your work.

Long Answer Questions: Please answer the following. Show all work. Draw graphs where needed. Only answer 1 of the 2 questions.

1. (30 points) (a) (20 points) How does elasticity affect the burden of a tax (i.e. if consumers or producers absorb more of the tax)? Justify your answer using supply and demand diagrams.

   (b) (10 points) How does the minimum wage affect total surplus? Use a supply and demand graph to explain your answer.

2. (30 points) Let the Supply Curve for puggles be defined as: $Q^s = 10 + 2P$. Likewise, let the Demand curve for puggles is defined by: $Q^d = 20 - 3P$.

   (a) (10 points) What is the equilibrium price and quantity?

   (b) (10 points) What is consumer surplus?

   (c) (10 points) Suppose a tax of 2 dollars for every puggle bought is placed on consumers. What is the change in consumer surplus?

Extra Credit 1: Doodle.

Extra Credit 2: Find the total surplus at equilibrium when $P = (Q^s)^{\frac{1}{2}}$ and $P = 5 - (Q^d)^{\frac{1}{2}}$.