MULTIPLE CHOICE (40 pts) Place ONLY ONE answer in the space provided.

1. B The purpose of the study of economics is:
   A. To determine the prices that will maximize gains for consumers.
   B. To study how societies choose among competing alternate uses of resources.
   C. To minimize the use of resources.
   D. To produce the greatest profits for producers (instead of consumers).
   E. To make sure that governments have enough resources to benefit society as much as possible.

2. B If Super Store raises the price of a box of chicken from $20 to $25 what is most likely to happen:
   A. The demand for chicken will fall.
   B. The quantity demanded for chicken will fall.
   C. The supply for chicken will rise.
   D. The quantity supplied will fall.
   E. The demand for chicken will fall and the supply of chicken will rise.

3. D April can catch 5 fish or gather 10 coconuts. Ben can catch 8 fish or gather 12 coconuts. Cindy can catch fish or 5 coconuts. Which person has the cheapest coconuts?
   A. April. Her coconuts cost her 2 fish each.
   B. April. Her coconuts cost her ½ fish each.
   C. Ben. He can produce the most coconuts.
   D. Cindy. Her coconuts cost us the fewest fish.
   E. Cindy. She produces the fewest number of coconuts.

4. B If the cost to grow cucumbers rises, what will happen to the market for cucumbers?
   A. The demand will decrease because of the higher price.
   B. The supply will decrease causing the price to rise.
   C. The demand will increase causing the price to rise.
   D. The supply will decrease because of the higher price.
   E. The demand will decrease and the supply will increase.

5. C If there is a price floor for apples set above the equilibrium price:
   A. Sellers will sell more apples than buyers want to buy. ✗
   B. Sellers will have to provide extra services (polish the apples?) to get buyers for their apples.
   C. Consumers will buy more apples than sellers want to sell.
   D. Consumers will gain surplus compared to what they would have at equilibrium.

6. Which of the following is a “market failure argument“ for bringing in a price ceiling:
   A. Not enough people are eating healthy vegetables so pass a law to reduce the price of tomatoes.
   B. Order all grocery stores to lower prices, so that smaller companies have a chance to compete against Walmart.
   C. Certain less air pollution, lower the price of gasoline so companies won’t want to produce so much.
   D. Reduce gambling which causes social damage, reduce the size of the prizes (but not the price of a ticket).
   E. To save energy, have the government pay for and give each family a 2-for-1 coupon to encourage people to buy using light bulbs.

7. If a company has lots of market power and wants to make as much profit as possible, it should:
   A. Reduce prices until the difference between marginal revenue and marginal cost is as large as possible.
   B. Reduce production if marginal cost is larger than marginal revenue.
   C. Increase production if marginal cost is larger than marginal revenue.
   D. Lower prices if the increase in revenue is smaller than the increase in prices.
   E. Charge the price which is as close to marginal cost as possible.
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8. A company wants to lower the price of its product from $20 to $15. If it does this it will increase the number of units it sells from 100 to 200. What is its marginal revenue per unit for reducing the price?

A. $2500  
B. $1000  
C. $17.5  
D. $10  
E. Negative $5

9. According to our textbook, it is better to use "market power" instead of "monopoly" because:

A. There are degrees of market power and it is not easy to tell how much makes a company into a monopoly.
B. Too many companies are monopsonies and not all of them harm the economy.
C. All companies are monopsonies and the government only uses this word to punish companies it doesn’t like.
D. Some companies (like BC Hydro) make the economy more efficient when they are monopsonies.
E. We don’t want to punish business talent when it helps the economy.

10. If the government stops two large private companies from agreeing not to compete with each other:

A. Using anti-trust laws to increase competition.  
B. Using "predatory pricing."  
C. Colluding with each other.  
D. Using regulations to increase their market power.  
E. Using technology to decrease their costs of production.

B. Demand and Supply (39 pts)

PRICE PER UNIT:  
QUANTITY DEMANDED:  
QUANTITY SUPPLIED:

What is the demand equation (Qd=f(P))?
What is the supply equation Qs=f(P))?
What is the consumer surplus at equilibrium?
What is the "cost" at equilibrium?
Suppose the government brings in a price ceiling at $27. What is quantity at this price ceiling, what is the CHANGE in the consumer surplus?
Calculate the new producer surplus if there is a price ceiling at P=$27.
What is the marginal revenue curve (MR=f(Q))?
What is the marginal cost curve (MC=f(Q))?
What is the Q that maximizes producer surplus for a monopoly?
What is the P that maximizes producer surplus for a monopoly?
What is the producer surplus that a monopoly will earn?
What is the waste (dead weight loss) caused by the monopoly?

\[ \text{old CS} = 242 \quad \text{new CS} = 269.5 \quad \text{old PS} = 18.15 \quad \text{new PS} = 28.00 \quad \text{DWS} = -14.4 \]
C. Demand/Supply changes (6 pts) Draw a rough diagram showing equilibrium. Then in your diagram show how demand and supply will change because of the following event. Finally, complete a table showing whether D, S, P, and Q increase, remain the same or decrease.

What will happen to the market for Coke if the engineers at Pepsi discover a way to make their cola much cheaper than before?

- **Demand** will: \(\downarrow\) no change
- **Supply** will: \(\uparrow\)
- **Equilibrium Price** will: \(\downarrow\)
- **Equilibrium Quantity** will: \(\uparrow\)

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D. Short Essay (15 pts) Maximum 200 words! A diagram will help your answer. Make sure you explain your diagram in your answer.

A local businessman thinks he has found a way to get rich. There are many hairdressers with good skills who don’t want to work full-time in a hairdresser shop. They would rather work odd hours at home. He comes up with a computer app so that these hairdressers can find customers and the customers can give feedback (stars) so new customers can tell how good the hairdressers are. He charges $1 for every appointment the hairdressers make through his app. At first, everyone seems happy until the Hairdresser’s Association of BC complains to the government that too many unqualified hairdressers are destroying their businesses. Plus many of these part-time hairdressers are working for cash and not paying taxes like the registered hairdressers do.

If you were a government minister, would you allow this businessman to make money this way? Why or why not? Use a demand and supply diagram to show if this businessman is increasing or decreasing gains from trade for the economy. From your diagram, can you explain why the Hairdresser’s Association of BC wants his business to close?

- **Consumers** gain \(A + B\)
- **Old price** \(\rightarrow\) **lose** \(A\) (must lower price to stay competitive)
- **Society** gains \(B\) (\(\Delta TP > \Delta PS\))

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