SECOND MIDTERM EXAMINATION  
ECON 200  
Spring 2007  
Version A (Version B Follows)

STUDENT'S NAME: ____________________________________________

STUDENT'S IDENTIFICATION NUMBER: __________________________

DAY AND TIME YOUR SECTION MEETS: ____________________________

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ANSWER ALL THE PROBLEMS ON THE SCANTRON SHEET.

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"I pledge on my honor that I have not given or received any unauthorized assistance on this examination (or assignment)."

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Pledge: __________________________________________________________________________
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*Figure 1. The curves below reflect information about the cost structure of a firm. The Marginal Cost Curve, Average Fixed Cost Curve, Average Variable Cost Curve and Average Total Cost Curves are shown (not necessarily in that order.)*

1. Refer to Figure 1. Which of the curves is MOST likely to represent average total cost?
   a. A
   b. B
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3. Refer to Figure 1. Curve A is U-shaped because of
   a. diminishing marginal product.
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   c. the fact that increasing marginal product follows decreasing marginal product.
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4. Refer to Figure 2. With trade and without a tariff,
   a. the domestic price is equal to the world price.
   b. carnations are sold at $8 in this market.
   c. there is a shortage of 400 carnations in this market.
   d. this country imports 200 carnations.

5. Refer to Figure 2. The imposition of a tariff on carnations
   a. increases the number of carnations imported by 100.
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   c. decreases the number of carnations imported by 200.
   d. decreases the number of carnations imported by 400.

6. Refer to Figure 2. The amount of deadweight loss caused by the tariff equals
   a. $100.
   b. $200.
   c. $400.
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7. Market failure can be caused by
   a. too much competition.
   b. externalities.
   c. low consumer demand.
   d. scarcity.
8. A free-rider problem may exist for any good that is NOT  
a. rival in consumption.  
b. a private good.  
c. free.  
d. excludable.

Figure 3 below reflects the market for outdoor concerts in a public park surrounded by residential neighborhoods.

9. Refer to Figure 3. The difference between the social cost curve and the supply curve reflects the  
a. profit margin of each concert.  
b. cost of spillover effects from the concert (e.g., noise and traffic).  
c. value of concerts to society as a whole.  
d. amount by which the city should subsidize the concert organizers.

10. Refer to Figure 3. At the private market outcome, the equilibrium price will be  
a. \( P_0 \).  
b. \( P_1 \).  
c. \( P_2 \).  
d. None of the above is correct.
11. Refer to Figure 3. What price and quantity combination best represents the optimum price and number of concerts that should be organized?
   a. \( P_1, Q_1 \).
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12. National defense is a classic example of a public good because
   a. there is no market for private security services.
   b. it is difficult to exclude people from receiving the benefits from national defense once it is provided and when one person 'consumes' defense, the amount of national defense available for others remains the same.
   c. everyone agrees that some level of national defense is important, but only the government knows the optimal amount.
   d. there are no private firms willing to supply defense goods such as tanks and weapons.

13. Four friends decide to meet at a Chinese restaurant for dinner. They decide that each person will order an item off the menu, and they will share all dishes. They will split the cost of the final bill evenly among each of the people at the table. When the food is delivered to the table, each person faces incentives similar to the
   a. consumption of a common resource good.
   b. production of a public good.
   c. consumption of a natural monopoly good.
   d. production of a private good.

14. Ford Motor Company announces that it will offer $3,000 rebates on new Mustangs starting next month. As a result of this information, today’s demand curve for Mustangs
   a. shifts to the right.
   b. shifts to the left.
   c. shifts either to the right or to the left, but we cannot determine the direction of the shift from the given information.
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   a. total revenue minus the explicit cost of producing goods and services.
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   c. total revenue minus the opportunity cost of producing goods and services.
   d. average revenue minus the average cost of producing the last unit of a good or service.

16. For a particular good, A, a 3 percent increase in price causes a 10 percent decrease in quantity demanded. For another good, B, a 3 percent increase in price causes a 6 percent decrease in quantity demanded. Which of the following statements is most likely applicable to the two goods?
   a. The relevant time horizon is shorter for A than for B.
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18. Suppose Larry, Moe and Curly are bidding in an auction for a mint-condition video of Charlie Chaplin's first movie. Each has in mind a maximum dollar amount that he values the video for. This maximum is called
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   a. It increases.
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   c. It is not affected by this change in market forces.
   d. We would have to know whether the demand for lemons is elastic or inelastic to make this determination.

20. As the tax on a good increases from $1 per unit to $2 per unit to $3 per unit and so on,
   a. the tax revenue increases at first, but it eventually peaks and then decreases.
   b. the deadweight loss increases at first, but it eventually peaks and then decreases.
   c. the tax revenue always increases and the deadweight loss always increases.
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21. Assume the law of demand and the law of supply both apply to the market for cars. If the government imposed a $500 tax per car on buyers of cars, then the price received by sellers of cars would
   a. decrease by $500 or less.
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   a. imports 150 calculators.
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   a. a+b+c.
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24. Suppose that Martin owns a lighthouse, and Lewis owns a nearby port. Martin's lighthouse benefits only those ships that enter Lewis's port. Which of the following statements is FALSE?
   a. Martin's lighthouse may be considered a private good.
   b. Martin can reduce the free-rider problem by charging Lewis a usage fee.
   c. Martin can exclude Lewis's port from benefiting from the lighthouse by simply turning the power off.
   d. Martin's lighthouse would be considered a common resource.

25. When a good is excludable,
   a. one person's use of the good diminishes another person's ability to use it.
   b. people can be prevented from using the good.
   c. no more than one person can use the good at the same time.
   d. everyone will be excluded from using the good.
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<tr>
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<th>Variable Costs</th>
<th>Total Costs</th>
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30. When a country moves away from a free trade position and imposes a tariff on imports, this causes
   a. a decrease in total surplus in the market.
   b. a decrease in producer surplus (of domestic suppliers) in the imported good market.
   c. an increase in consumer surplus (of domestic consumers) in the imported good market.
   d. a decrease in revenue to the government.
31. When the social cost curve is above a product's supply curve,
   a. the government has intervened in the market.
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37. If a country allows free trade and, for a certain good, the domestic price without trade is lower than the world price,
   a. the country will be an exporter of the good.
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38. The size of a tax and the deadweight loss that results from the tax are
   a. positively related (that is, move in the same direction).
   b. negatively related (that is, move in opposite directions).
   c. independent of each other.
   d. equal to each other.

39. In the long run for Firm A, total cost is $105 when output is 3 units and $120 when output is 4 units. Does Firm A exhibit economies or diseconomies of scale in this range?
   a. Diseconomies of scale, since total cost is rising as output rises.
   b. Diseconomies of scale, since average total cost is falling as output rises.
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40. Constant returns to scale occur when
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</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>1</td>
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   d. None of the above is correct; government’s tax revenue is the area between the supply and demand curves, above the horizontal axis, and below the effective price to buyers.
37. As the tax on a good increases from $1 per unit to $2 per unit to $3 per unit and so on, 
   a. the tax revenue increases at first, but it eventually peaks and then decreases. 
   b. the deadweight loss increases at first, but it eventually peaks and then decreases. 
   c. the tax revenue always increases and the deadweight loss always increases. 
   d. the tax revenue always decreases and the deadweight loss always increases.

38. The size of a tax and the deadweight loss that results from the tax are 
   a. positively related (that is, move in the same direction). 
   b. negatively related (that is, move in opposite directions). 
   c. independent of each other. 
   d. equal to each other.

39. Four friends decide to meet at a Chinese restaurant for dinner. They decide that each person will 
   order an item off the menu, and they will share all dishes. They will split the cost of the final bill evenly 
   among each of the people at the table. When the food is delivered to the table, each person faces 
   incentives similar to the 
   a. consumption of a common resource good. 
   b. production of a public good. 
   c. consumption of a natural monopoly good. 
   d. production of a private good.

40. Suppose that Martin owns a lighthouse, and Lewis owns a nearby port. Martin's lighthouse 
   benefits only those ships that enter Lewis's port. Which of the following statements is FALSE? 
   a. Martin's lighthouse may be considered a private good. 
   b. Martin can reduce the free-rider problem by charging Lewis a usage fee. 
   c. Martin can exclude Lewis's port from benefiting from the lighthouse by simply turning the power 
      off. 
   d. Martin's lighthouse would be considered a common resource.