

UNIVERSITY OF CALIFORNIA, LOS ANGELES
Department of Economics

March 23, 2000

Cameron

Economics 1 - Final Examination

INSTRUCTIONS: Enter your name, student number, and signature (you may be asked to show identification). Circle your TA section, day and time. For the multiple choice portion of the examination, transfer your answers to your scantron sheet. **ONLY THE SCANTRON ANSWERS WILL BE COUNTED, SO DOUBLE-CHECK CAREFULLY.** Answer the rest of the questions in the spaces provided on this exam. If any pages of this exam are loose, please print your name clearly on every page. USE APPROPRIATE DIAGRAMS (MODELS) WHENEVER POSSIBLE. You have three hours to write this exam. Verify that your exam consists of 14 total pages.

Name: _____

Student # _____

Signature: _____

1a	M	10:00	Dance 105	Young-Nahn Baek
1b	M	2:00	Bunche 2157	Young-Nahn Baek
1c	M	1:00	Bunche 3164	Young-Nahn Baek
1d	T	3:00	Dance 103	Hsin-Ling Hsieh
1e	T	4:00	Bunche 3156	Hsin-Ling Hsieh
1f	W	1:00	Bunche 3164	Leon Yen
1g	W	3:00	Bunche 3156	Leon Yen
1h	Th	5:00	Bunche 3157	Josh Shackman
1i	Th	3:00	Bunche 2156	Hsin-Ling Hsieh
1j	F	9:00	Bunche 2168	Qiao Liu
1k	F	10:00	Moore 1003	Qiao Liu
1l	M	3:00	Bunche 3153	Josh Shackman
1m	W	4:00	Bunche 2181	Leon Yen
1n	F	1:00	Bunche 3117	Qiao Liu

SCORING: Multiple Choice (30@2): _____ /60

Short Answer (12@5): _____ /60

BASIC TOTAL: _____ /120

Optional extra credit _____ SCORE: _____

1. Yellowstone National Park is now charging higher entrance fees than before. This should result in
- a movement up a downward-sloping demand curve for park visits.
 - a decrease in the demand for park visits.
 - a movement down an upward-sloping supply curve for park visits.
 - More than one of the above answers is correct.
2. The difference between _____ cost and _____ cost is _____ cost.
- marginal, average variable, opportunity
 - average total, marginal, fixed
 - fixed, variable, marginal
 - average variable, average total, average fixed
3. If a price ceiling is a binding constraint on the market,
- the equilibrium price must be below the price ceiling.
 - the equilibrium price must be above the price ceiling.
 - the forces of supply and demand must be in equilibrium.
 - it will have no effect on supply or demand.
4. What is the monopolist's profit under the following conditions:
- The price charged for goods produced is \$16.
 The intersection of the marginal revenue and marginal cost curves occurs where output is 10 units and price is \$8.
 Average costs for 10 units of output is \$6.
- \$160
 - \$100
 - \$80
 - None of the above.
5. If players in a repeated game follow a tit-for-tat strategy
- the cooperative solution is likely to prevail.
 - self-interest is likely to lead to a non-cooperative solution.
 - self-interest becomes irrelevant to the outcome of the game.
 - a cooperative solution would be impossible to enforce.
6. Assume an economy has two jobs, one that requires education and one that does not. If the wage difference between the two jobs is not sufficient for individual workers to make a return on their investment in education it is likely that
- supply of workers for the jobs that require education will fall.
 - the wage rate for jobs that require an education will begin to rise.
 - employers may be willing to pay some of the cost of education.
 - all of the above.

7. When indifference curves are bowed inward toward the origin,
- people are less inclined to trade away goods that they have an abundance of.
 - people can only increase satisfaction by consuming more of all commodities.
 - it is unlikely that consumers will be willing to engage in trade.
 - the marginal rate of substitution decreases as one moves down her indifference curve.

8. If the government raises the per gallon tax on, thus the price of, gasoline to increase tax revenue,
- they are assuming that the demand for gasoline is price elastic.
 - they are assuming that the demand for gasoline is price inelastic.
 - they are assuming that the demand for gasoline is price unit-elastic.
 - they are making a mistake because raising the tax on gasoline will necessarily reduce tax revenue.

9. In a perfectly competitive market, no single producer can influence the market price because
- there are so many other producers that the decisions of a single producer are negligible.
 - consumers have more influence over the market than producers do.
 - the free enterprise system ensures competition.
 - government intervention prevents firms from having market power.

10. Each year the United States considers renewal of Most Favored Nation (MFN) trading status with China. Historically, legislators have made threats of not renewing MFN status because of alleged human rights abuses in China. The non renewal of MFN trading status is likely to involve some retaliatory measures by China. The Game below reflects the potential economic gains associated with a two outcome game in which China may impose trade sanctions against U.S. firms and the U.S. may not renew MFN status with China.

Table of dollar value of all trade flows for the United States and China under two trade relationship scenarios.

		China	
		Imposes trade sanctions against United States firms	Does not impose trade sanctions against United States firms
United States	Does not renew MFN status with China	U.S. -- \$65 China -- \$75	U.S. -- \$140 China -- \$5
	Does renew MFN status with China	U.S. -- \$35 China -- \$285	U.S. -- \$130 China -- \$275

When this game reaches a Nash equilibrium, the dollar value of trade flows will be

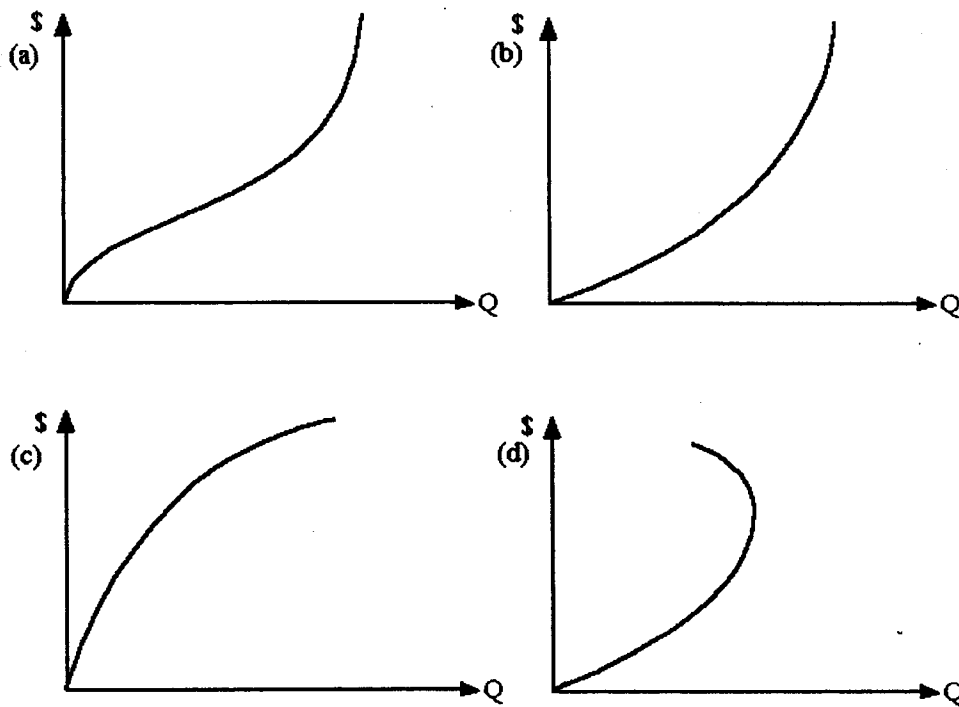
- United States \$140 and China \$5
- United States \$65 and China \$75
- United States \$35 and China \$285
- United States \$130 and China \$275

11. Negative externalities create a misallocation of resources because

- a. marginal social value equals marginal social cost at the level of output exchanged in private markets.
- b. marginal private cost exceeds marginal social value at the level of output exchanged in private markets.
- c. marginal social cost exceeds marginal private value at the level of output exchanged in private markets.
- d. marginal private value exceeds marginal private cost at the level of output exchanged in private markets.

12. Which of the total cost curves shown would be consistent with a natural monopolist?

- a. Panel a.
- b. Panel b.
- c. Panel c.
- d. Panel d.



13. Hours needed to make one unit of:

	<u>Cars</u>	<u>Airplanes</u>
U.S.	40	160
Japan	50	150

Japan has a comparative advantage in _____ and the U.S. has an absolute advantage in _____.

- a. airplanes, cars
- b. cars, airplanes
- c. cars, neither good
- d. airplanes, both goods

14. For a monopolistically competitive firm in long-run equilibrium _____ like in a monopoly market, and _____ like in a competitive market.
- price equals average total cost, price exceeds marginal cost
 - marginal revenue equals marginal cost, average revenue exceeds average total cost
 - average revenue exceed average total cost, marginal revenue exceeds average revenue
 - price exceeds marginal cost, price equals average total cost
15. Sharon is paid \$10 million for performing in a movie. Her producer surplus is \$9.9 million. Sharon's cost is
- \$19.9 million.
 - \$10 million.
 - \$9.9 million.
 - \$0.1 million.
16. When a firm is unable to generate enough revenue to pay all of its fixed costs
- it should shut down and incur the total loss of its fixed costs.
 - it should always continue to produce as long as marginal cost is less than average revenue.
 - it should continue to produce as long as revenue is sufficient to pay variable costs.
 - it should shut down until it is able to produce where average revenue exceeds average fixed cost.
17. Taxi cab drivers in large cities are likely to earn more than taxi cab drivers in rural areas. One reason for this wage differential could be that
- driving in large cities is more fun than driving in rural areas.
 - driving in a large city is easier than driving in a rural area.
 - it is unlikely that a taxi cab driver in a large city will be involved in a traffic accident that involves farm animals.
 - driving a taxi in a large city is more dangerous than driving in a rural area.
18. The poverty line reflects an annual income equal to approximately _____ the cost of providing an adequate diet.
- one-half
 - one and a half times
 - two times
 - three times
19. Common resource goods are
- rival and non-excludable.
 - rival and excludable.
 - non-rival and excludable.
 - non-rival and non-excludable.

20. The utilitarian case for redistributing income is based on the assumption of
- a. a notion of fairness engendered by equality.
 - b. diminishing marginal utility.
 - c. rising marginal utility.
 - d. collective consensus.
21. If wages rise, profit maximizing firms in competitive markets will _____ employment and marginal product of labor will _____.
- a. increase, rise
 - b. increase, fall
 - c. decrease, rise
 - d. decrease, fall
22. One hypothesis to explain the _____ gap in wages between unskilled and skilled workers is _____.
- a. rising, international trade has altered the relative supply for skilled and unskilled workers
 - b. falling, international trade has altered the relative supply for skilled and unskilled workers
 - c. falling, international trade has altered the relative demand for skilled and unskilled workers
 - d. rising, international trade has altered the relative demand for skilled and unskilled workers
23. Firms can have
- (i) accounting profits and economic losses.
 - (ii) accounting profits and economic profits.
 - (iii) accounting losses and economic losses.
 - (iv) accounting losses and economic profits.
- a. (i), (ii), and (iii)
 - b. only (i) and (iv)
 - c. only (ii) and (iii)
 - d. all of the above
24. When the loss from a business-stealing externality exceeds the gain from a product-variety externality
- a. market efficiency is likely to be enhanced by the entry of new firms.
 - b. the market structure is likely to be in transition.
 - c. firms are more likely to operate at efficient scale.
 - d. there are likely to be too many firms in a monopolistically competitive market.
25. Which of the following statements are true?
- a. In selecting an optimum consumption bundle, consumers equate the marginal rate of substitution with the relative price.
 - b. In selecting an optimal consumption bundle, consumers will always choose a bundle outside their feasible consumption set.
 - c. In selecting an optimal consumption bundle, consumers equate utility with income.
 - d. In selecting an optimal consumption bundle, consumers inclined to consume at least one commodity at the point of satiation.

26. If price is less than marginal cost, a perfectly competitive firm will

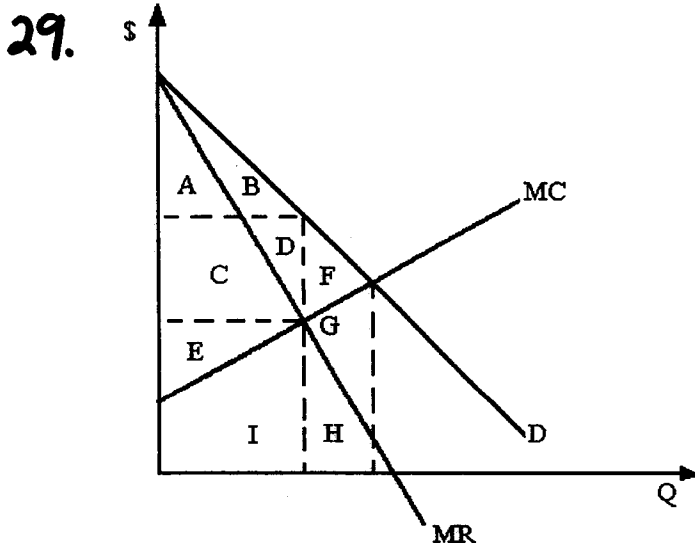
- reduce its output.
- increase its output.
- reduce its output if diseconomies of scale occur.
- None of the above.

27. E & O Pietro Winery is a competitive profit maximizing enterprise. The hourly wage rate for grape harvesters is \$15 an hour, and picked wine grapes are selling for \$0.20 per pound. What is the hourly marginal product of the last worker hired?

- 24 pounds
- 75 pounds
- 100 pounds
- there is not sufficient information about the production function to answer this question.

28. For use in cost benefit analysis, the value of a human life is sometimes calculated on the basis of

- the risks that a person voluntarily exposes herself to in her job and/or recreational choices.
- the value of the person's assets.
- an infinite value for each life.
- the value of component chemicals within the body.



A profit maximizing monopolist will capture producer surplus equal to area

- $C + D + E + I$
- $C + D + E$
- $E + F + G + H + I$
- $A + B + F$

30. Goods that are easy to substitute for each other will exhibit

- indifference curves that are more bowed.
- indifference curves that cross more frequently.
- indifference curves that are less bowed
- indifference curves that have a positive slope.

1. Consider a competitive firm that uses a large amount of expensive capital and relatively little in the way of labor inputs to produce its product. Over the short run, a firm like this can withstand considerable variation in the price of its output without shutting down operations. True, False, Uncertain? Explain using appropriate diagram(s).

2. Consider a competitive industry in equilibrium that experiences a sudden increase in market demand for its product. Explain what happens, to each firm and to the industry and market as a whole, as a new competitive equilibrium is established. Use appropriate diagram(s).

5. Monopoly and perfect competition are two opposite ends of the spectrum of market structures. Therefore, it is not possible for both "price-making" and "price-taking" behavior to co-exist in the same market. True, False, Uncertain? Explain using appropriate diagram(s).

6. Monopsony wage-setting behavior by an employer in a one-company town can be offset by a workers' union that sets a minimum wage. However, if the union overestimates what would have been the equilibrium wage if the labor market in this town had been competitive, workers will be unambiguously worse off than if the labor market had been competitive. True, False, Uncertain? Explain using appropriate diagram(s).

7. Suppose that discrimination against one category of workers takes the form of exclusion of that type of worker from one labor market. They are forced to supply their labor services to some other market. In this case, the only effect of discrimination is that the earnings of that category of workers will be reduced. True, False, Uncertain? Explain using appropriate diagram(s).

8. "Gasoline prices have recently experienced sharp increases. As a result, we can expect that people's *preferences* for automobiles will shift away from large sport-utility vehicles and toward smaller, more fuel-efficient cars." Using the language of micro-economics, is this assertion correct? Be sure to differentiate between choices and preferences. Illustrate with appropriate diagram(s).

9. In the very last lecture of the quarter, we looked at how an individual's demand curve for a particular good could be derived from his or her process of utility maximization subject to a budget constraint. We looked at inelastic, elastic, and unit elastic demand curves. Use a similar pair of diagrams to show the type of preference function (indifference curve map) that would be consistent with zero elastic demand for a good. Label the diagram carefully and describe its relevant features.

10. A cartel is a fundamentally stable form of economic organization. True, False, Uncertain? Explain using appropriate diagram(s).

11. Ceteris paribus, if a per-unit tax is imposed on a good for which demand is relatively less elastic (rather than more elastic), the deadweight loss associated with the tax will be smaller, but the tax revenue collected will also be smaller. True, False, Uncertain? Explain using appropriate diagram(s).
12. Suppose that the opening of unrestricted international trade in zipfogs means that domestic consumers in Autarkia can now buy zipfogs at a lower price on the international market than the price they previously had to pay in the domestic market. Is everybody in Autarkia likely to be thrilled about cheap zipfogs? Autarkian zipfog producers successfully lobby for an import quota to restrict zipfog imports to one-third the amount that would be imported under free trade. Use two carefully labeled diagrams to explain (a) who wins and loses with the opening of free trade in zipfogs, and (b) who subsequently wins and loses with the imposition of the import quota on zipfogs.

Optional Extra Credit Question (2 points)

13. Describe what is meant by the “efficiency” and the “equity” of a tax system and explain why these two issues can make changes in tax policy controversial.