

## Fall 2001 Econ 1 Final Exam Grading Policy

The following is the grading policy concerning the short answer questions in the midterm. We grade according to the policy set below, however, we also have to exercise our judgment over some “non-standard” answers. Some extra points may be given or some extra points may be subtracted according to students’ explanation *on the answer sheets*.

Thomas Tang: short answer #1 to #3.

Ching Tai: short answer #4 to #6.

Richard Scheelings: short answer #7 to #12.

1. In the graph for an individual firm's decision: 1 point for showing the original equilibrium price is determined by the minimum point of ATC (not AVC) curve (under perfect competition). 2 points for showing that ATC curve shifts upward as a result of the added costs for pest control (whether this is due to an increase in fixed costs or variable costs I cannot judge) and a typical firm is thus making losses at the original price level. 1 point for showing that the new long-run equilibrium price is at the minimum level of the new ATC curve (higher than before).

In the market demand-supply diagram: 1 point for showing that, in the long run, either because some firms exit or MC curve shifts in, short-run aggregate supply curve shifts in, ending up with the new equilibrium price level and a lower quantity traded.

1 point will be deducted if you indicated there is a shift in the demand curve, or if you mixed up the elements of the two graphs and put them into one (e.g. putting the market demand curve in the first graph).

2. 2 points for identifying  $MR=MC$  as the condition for maximizing the publisher's profits and correctly depicting the condition. 2 points for identifying  $MR=0$  as the criterion for revenue maximizing, which is the objective of the author and correct graphing. 1 point for correctly showing that the former condition leads to higher price and lower quantity BY THE GRAPH.
3. 1 point for showing that for a natural monopolist firm, ATC should be decreasing with quantity (at least up to its intersection with demand curve). 1 point for showing the original postage rate is inferred from the above intersection. 1 point for shifting the demand curve inward and showing the quantity demanded (traded) is lower at the current postage level. 1 point for showing the UPS is making losses because the price is now lower than its average cost at the new quantity. 1 point for conjecturing that a rise in postage is needed to bail UPS out, as is the way with a regulated natural monopoly.

4. 1 point for writing down  $\text{profit}/q = P - \text{atc}$ . 1 point for showing on the graph where is  $\text{profit}/q$  (the distance between the price and the  $\text{atc}$ -curve.) 1 point for answering that the output level for profit-maximizing is where  $P(\text{MR}) = \text{mc}$ . 1 point for showing that profit-maximizing output level on the graph. 1 point for explaining and showing on the graph that  $\text{profit}/q$  is maximum at the point of the minimum of  $\text{atc}$ , hence it differs from the profit-maximizing output level. Lots of students missed the whole question and answered the case of monopoly. If the graph is not correct, 1 or 2 point may be given depends on the explanation.
5. 1.5 points for correct graph of competitive factor market. 1.5 points for correct graph of factor market with monopsony. 1 point for correct graph of factor market with monopsony and union in the case when the union sets the minimum wage at the competitive wage rate. 1 point for the case when the union sets the minimum wage higher than the competitive wage rate; in this case the workers who keep their jobs will be better off, while the ones lose their jobs will be worse off. If there is no proper graph provided, 1 to 2 points will be given depends on the explanation.
6. 1 point for showing a set of budget constraints with different slope due to different price of the commodity  $x$ . 1 point for showing proper indifferent curves that tangent to the budget constraints (indifferent should not cross one another.) 1 point for showing the proper consumption combination (the consumption of commodity  $x$  decreases and the consumption of all other goods increases when the price of commodity  $x$  increases.) 1 point for proper label. 1 point for showing that the demand curve they derive for the commodity  $x$  is elastic either by proper number or by proper explanation. Note that if you do not shift the budget constraints properly (either having a set of parallel budget constraints or just one budget constraint) that means you do not understand the demand curve (price vs. quantity) and only 0.5 to 1.5 points will be given depends on the explanation.
7. Wide range here. Full marks for correct diagram and explanation and statement of 'false' or 'uncertain'. Anything less than complete got an integer grade, according to how well the question was answered. Good answers with 'true' nonetheless circled got 4 points.
8. For full marks, wanted to see regression analysis mentioned, variables included in such a regression. Many students had an 'elite jobs versus non-elite jobs' diagram and explanation. They got zero. Others had chat about compensating differentials. They too got zero.
9. Most got this right. Full marks for correct diagram and explanation. Students who talked about dominant firm and fringe firms got zero.

10. Full marks for correct diagram and explanation. Many students had that, but had also circled 'true', and so lost a point. Lost points also if diagram not 100% correct (eg, demand curve not tangent to ATC curve).
11. Most students got this right, and hence got full points. No grades without a diagram. A diagram without sufficient side explanation got 4 marks.
12. Full marks for correct diagram and mention of increased price, decreased quantity and deadweight loss. I especially wanted to see deadweight loss mentioned (so some good answers otherwise only got 4 points). Most students got full marks (this question is the least they should know at the end of this course). About 15% talked about oligopoly and fringe etc (sometimes with diagram). I gave them zero. Harsh, but the question said Monopolization. Some prose sort of on track without a diagram got one point.