

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

Econ Club meets Thursdays at 11:00 in Morlan 103. You need not be a major in the department to attend. Attendance can help you with networking. That will help you meet upper-class students who can help you with courses and maybe with a job later.

- 1) (15 points) Some athletes are paid ridiculous amounts of money. How can you tell how much of what they are paid is economic rent? Explain your logic.
- 2) (15 points) Suppose you were to start a small restaurant in Bethany. Would you do it as a *proprietorship*, *partnership*, or *corporation*? Explain your logic.
- 3) (15 points) Later in the semester, we will prove that perfectly competitive firms make no economic profit in the long run. Why would they stay in business if they make no economic profit?
- 4) (20 points) Suppose that a friend wants to borrow some money. They say that they will pay you \$110 a year from today and \$242 two years from today. If you want a 10% return, then how much is the most you are willing to lend them? Set up the equation. Explain why you wrote the equation as you did. Then calculate the value.
- 5) (20 points) What is the biggest problem with financing a new factory by issuing new shares of stock? What is the advantage of that type of finance? Explain your logic for both parts.
- 6) (15 points) Suppose that the bank is paying you 7% interest and the inflation rate is 4%. Approximately, what is the real interest rate you are receiving? Show all work.