Wilfrid W. Csaplar Jr., Ph.D.   Economics 163   Exam #4   2008/12/03

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet.
Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170
points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For
example, a 14-point question should take 7 minutes. I cannot give extra time because some students have
a class after your class.

 In your Bethany e-mail account should be a request for you to evaluate this course online. Please do so.

1) (10 points) Answer EITHER Part A OR Part B.
A) What is the difference between a *union shop* and a *closed shop*?
B) What is a *sympathy strike*? Why would a union do that?

2) (12 points) Answer EITHER Part A OR Part B.
A) Explain the economic reason why MR ≠ P for a non-discriminating monopoly.
B) Explain why a monopoly which practices perfect price discrimination produces at the socially optimal
quantity.

3) (12 points) Answer EITHER Part A OR Part B.
A) Why should MPL/w = MPK/r? Explain the economic logic.
B) The book implies that *outsourcing* helps the country as a whole. How could that be true? (This
conclusion is controversial, but it could be true.)

4) (14 points) Answer EITHER Part A OR Part B.
A) State the *capture hypothesis*. Explain how that could happen.
B) Explain the economic reason why we need government agencies like the FTC, FDA, and CPSC. In
your explanation, state what ONE of those three groups does.

5) (16 points) Draw the supply and demand for assembly line workers for the car manufacturers. Explain
why the curve(s) moved as drawn. What happens to the number of people employed and the wages they
are paid?
A) Because of the financial crisis, it gets harder to get a car loan.
B) The unemployment rate for all citizens in the USA goes up.

6) (16 points) Answer EITHER Part A OR Part B.
A) Use the supply and demand for labor to explain how a union can cause itself problems if they succeed
at raising their wages too high.
B) What is the *lemons problem*? How would the market reduce the problem without government
intervention?

7) (20 points) Answer EITHER Part A OR Part B.
A) Draw the ATC/AVC/MC/D/MR diagram for a monopoly. Find the point where a profit maximizing
firm produces. Explain how you found the price and quantity.
B) Draw the ATC/MC/D/MR diagram for a natural monopoly. Explain why it is called a natural
monopoly.