Write your name on the cover of the test booklet and nowhere else. 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 of the class which follows yours.

1) (10 points each) Answer TWO of the following parts.
A) If when you earn $10,000/year, you buy 20 CDs and when your income is $20,000/year, you buy 25 CDs, then are CDs luxuries, normal goods, or inferior goods? Show all work and **briefly** explain your answer. (It will be easier to use a point elasticity.)
B) Would you expect cameras to have an own-price elasticity of $E_{Px} < -1$, $-1 < E_{Px} < 0$, or $E_{Px} = -1$? Explain your logic.
C) What is the bandwagon effect? If there is a bandwagon effect, how will that affect the own-price elasticity of demand? **Briefly** explain your logic.

2) (16 points) Answer EITHER Part A OR Part B.
A) Setup the equation(s) which would help you to solve this problem. **Do not** do the calculations. Suppose you had a business proposition. If you paid $100,000.00 today, you would earn $30,000.00 a year for four years with each payment being paid at the end of the year. What rate of return would you get in this business? Explain how you got the equation(s) and how you would use the numbers to answer the question.
B) Explain the *Risk Bearing* theory of how firms make economic profits.

3) (16 points) Answer EITHER Part A OR Part B.
A) Suppose total cost is given by $TC = 100 + 2Q + (½)Q^2$ and the total revenue is given by $TR = 11Q - Q^2$. Find the marginal cost and marginal revenue. Find the profit-maximizing output. Show all work and briefly explain what you did.
B) The book says that for a learning organization to work, there must be "personal mastery." Why is this true? Briefly explain what "personal mastery" means and what a learning organization is, while answering the question.

4) (18 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for goose-down pillows. Explain the movement(s) of the curve(s).
A) Geese replace turkeys for Thanksgiving dinners.
B) More people become allergic to foam pillows.

5) (30 points) Copy the table into your booklet and fill it in. <u>Show all work</u>. For the demand curve (the first two columns), assume that $P = 10 - 2Q$.

Q	P	TR	MR	TC	ATC	MC
0				3		
1					6	
	6					4
	4				5	