

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 the other section did not get any.

1) (10 points each) Answer TWO of the following parts.

A) If at a price of \$10/CD, you buy 20 CDs and a price of \$12/CD, you buy 15 CDs, then are CDs elastic, inelastic, or unitary elastic goods? Show all work and **briefly** explain your answer. (It will be easier to use a point elasticity.)

B) Would you expect computers to have an income-elasticity of $E_I > 1$, $1 > E_I > 0$, or $E_I < 0$? Explain your logic.

C) What is the snob effect? If there is a snob 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 will earn money every year for four years with each payment being paid at the end of the year. If you wanted a 10% return, how much would you have to earn each year? Explain how you got the equation(s) and how you would use the numbers to answer the question.

B) Explain the *Frictional Profits* theory of how firms make economic profits.

3) (16 points) Answer EITHER Part A OR Part B.

A) Suppose total cost is given by $TC = 100 + 2Q + (\frac{1}{2})Q^2$ 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 TQM to work, it “must provide quick financial returns and compensation.” Why is this true? Briefly explain what TQM 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 wool wall-to-wall carpeting. Explain the movement(s) of the curve(s).

A) Wool coats become more expensive.

B) Hardwood floors become even more expensive to maintain.

5) (30 points) Copy the table into your booklet and fill it in. Show all work. 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	