Wilfrid W. Csaplar Jr., Ph.D. Economics 280-1 Exam #3 2005/04/01

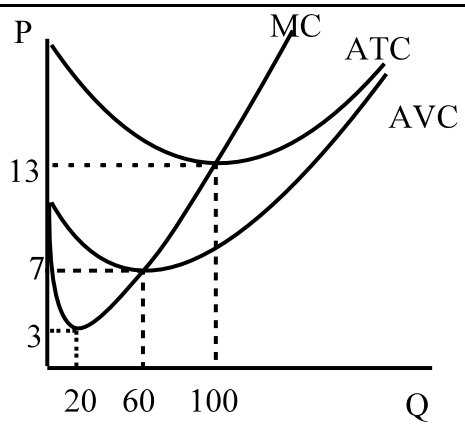
Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question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

1) (10 points) Answer EITHER Part A OR Part B.
A) How do we draw the demand curve for a perfectly competitive firm? Why does it look like that?
B) Give an example of an industry which is an oligopoly. Explain why you feel they are an oligopoly.

2) (12 points) Answer EITHER Part A OR Part B.
A) Draw the MP_L diagram and explain why it takes that shape.
B) Suppose the table on the right represents the production of the firm. If they are profit maximizing, then how much should they produce if the wage rate is \$30/L and the price of the good is \$5/Q? Explain your logic.

L	Q	MP_L	AP_L
1	10	10	10
2	16	6	8
3	21	5	7
4	24	3	6

3) (14 points) Answer EITHER Part A OR Part B.
A) If there are 1000 firms in a perfectly competitive industry and their cost curves are drawn to the right, then draw the industry short-run supply curve. Explain how you got the different points on the graph.
B) Suppose the firm is producing 1000 items and sells them for \$5/unit. If the AVC is \$3/unit, and the TFC is \$1500, what are the break-even output and the DOL? Show all work.



4) (18 points) Answer EITHER Part A OR Part B.
A) Illustrate on the TC/TR diagram of the break-even analysis, an increase in the rent of the office building. Assume the size of the building is unchanged. Explain why the curve(s) moved as drawn. Will the firm's break-even point be at a smaller, larger, or same quantity as before? What is the economic reason for this?
B) Suppose there are two firms in the same industry, so they face the same selling price of their goods. The two firms have different fixed costs, but the same profits and same level of production. Draw the two firms' TC/TR diagram for the break-even analysis. Explain why the curves are drawn as you drew them. Which firm is riskier? How can you tell?

5) (20 points) Draw an SRMC/SRAVC/SRATC/D/MR diagram for a perfectly competitive firm which is making profits. Draw the profits on that diagram. Explain how you found the profits.

6) (26 points) Illustrate EITHER the event in Part A OR the event in Part B on the SRMC/SRAVC/SRATC/AFC diagram. Explain why the curve(s) moved as drawn.
A) The cost of inventory insurance increases.
B) The cost of employees' health insurance increases.