**ECONOMICS 203**

**MIDTERM EXAM – Spring 2011**

**Put your name as it appears on your SUID on every page** – Write Clearly!\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(Points)

(5) 1. (2.3.1) Define margin. Given an example of a margin.

(5) 2. (3.2.1) Distinguish between financial capital and production capital.

(10) 3. (3.1.8, 14) Explain why the division of labor gives rise to exchange. Identify the condition that limits the division of labor.

(10) 4. (2.7.4, 11) Describe what the discount rate measures. Identify, *ceteris paribus*, who you would expect to do more saving and investing: Someone with a high discount rate or someone with a low discount rate.

(10) 5. (7.3.2) Explain the concept: factor demand as derived demand. Give an example.

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(10) 6. (4.3.16, 5.1.15) On each graph identify the initial equilibrium price and quantity exchanged with P0 and Q0 respectively.



a. Identify three conditions that would contribute to the Own Price Elasticity of Demand for Good A being inelastic.

b. Identify one product Supply shift variable and describe how that variable would have to change in order to shift a product Supply line up.

c. Assume that the cross price relationship between Goods A and B is x  < 0

Now suppose that the shift you described in part “b” actually occurred in the Good A market. Show the new equilibrium in the Good A market, and the effect of this change in the Good A market would have on the Good B market given the specified cross price elasticity, *ceteris paribus*. Identify any shifts and label the new equilibrium price and quantity exchanged in each market with P1 and Q1.

d. In the Good B market the supply/quantity supplied (**circle one**) changed.

(10) 7. (4.2.3, 7.3.9) When a worker considers asking for a raise, two things she should consider are the own price elasticity for the good she is producing and the elasticity of input substitution for her own kind of labor. Explain in the terms of an economist why this is so.

(10) 8. (9.2.11, 22) Explain the concept: artificially created market power. Give examples. Describe the equity and efficiency implications of market power.

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(10) 9. (6.1.11, 12) Given the following information on the cost structure facing a typical firm



a) Complete the cost structure information for the typical firm, and on the market graph draw a market equilibrium that results in a market price (P0) which causes the typical firm to make a negative profit (i.e., a loss).

b) Draw in and label the demand curve (Df) for the Typical Firm (given (a)).

c) Identify the quantity the Typical Firm will produce with a Q0 (given (b)).

d) Given all of the above, show the size of the profit made by the typical firm when it produces quantity Q0 at price P0. Do this with a rectangle that looks like this: 

e) Show what the market picture will look like after all adjustments are complete, given our nice assumptions.

(10) 10. (9.3.13) On the graph below show the case of a negative externality. Identify the MSC and MSB lines, the exact size of the externality, the optimal level of private activity Lp, the optimal level of social activity Ls, and the exact size of a tax that would solve the externality problem.



Explain why it is very difficult for the government to solve positive or negative externality problems?

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(10) 11. (8.2.5, 4) Identify and explain the standard by which economists measure the efficiency of any general equilibrium. Given that our nice assumptions hold, describe the relationship between the distributive outcome of the market process and the distribution of society’s endowment among individuals.

I understand the general standards of academic integrity established by Syracuse University and those specific standards laid out in Professor Evensky’s syllabus. My work on this exam meets those high standards of academic integrity.

Signed:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_