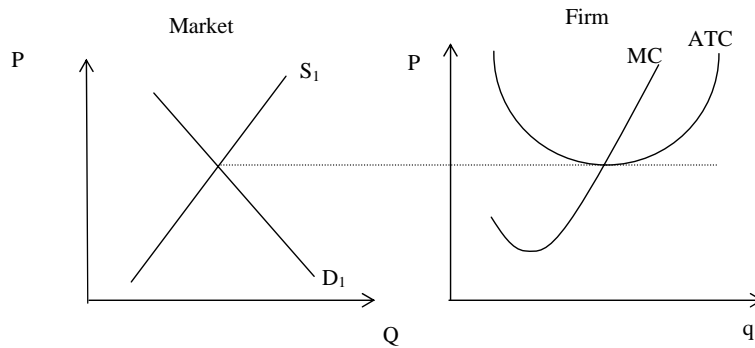


Econ 101 – section 5
practice exam # 3

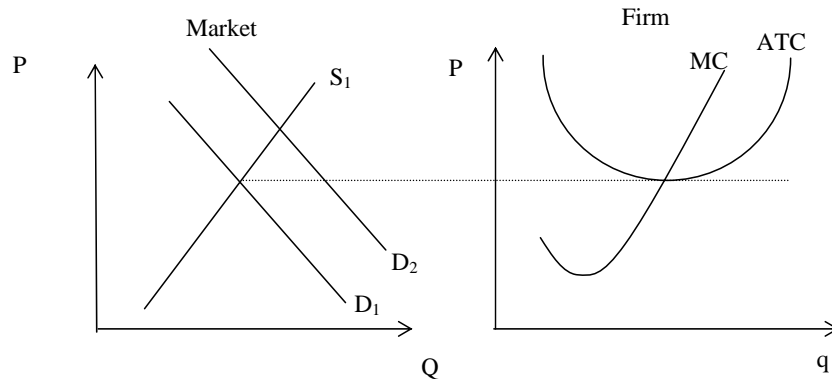
- The Exam on Thursday April 8th will consist of 4 questions each with multiple parts. Each question is worth 15 points for a total of 60 points. The actual exam will have more sub-sections than what is shown here.

Practice questions

1) i) On the following graph indicate what would happen to the market and the firm in the SR if there is an increase in market demand. Specifically, indicate what will happen to market price and quantity, the firms price and quantity, and indicate the firms profit (or loss).



ii) The following market is perfectly competitive and there has been an increase in demand from D_1 to D_2 . Indicate what will happen to the market in the long-run assuming this industry is a decreasing cost industry.



2) A monopolists demand curve is given by $P = 16 - 4 * q$ where P is price and q is quantity. Marginal revenue is $MR = 16 - 8 * q$ and marginal cost is $MC = q^2$.

- i) What is the firms profit function?
- ii) How much is this firms fixed cost of production?
- iii) What is the optimal amount of output?
- iv) How much profit is this firm earning?

3) Assume the market for white sports socks is perfectly competitive. For the following scenarios should it produce or shut down in the short-run? Draw a diagram that will replicate the information below:

a) Min ATC=\$2.00
 Min AVC = \$1.50
 P=\$1.75

b) Min ATC = \$2.00
 MR = \$1.00
 Min AVC = \$1.50

4) Definitions

- a) How is a firms supply curve derived? Use a diagram showing how you would derive a firms supply curve using the appropriate curves (i.e. MC, AVC, ATC, MR, Demand, etc.)
- b) What is the principal-agent problem?
- c) What is a monopolist?
- d) What is the goal of a Spanish internet company operating in Madrid?