

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. 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 10-point question should take 5 minutes. I cannot give extra time because some students have a class after your class.

1) (12 points) Answer EITHER Part A OR Part B.

A) What is the *principal-agent* problem and how does it apply to profit maximizing firms?

B) What is wrong with this logic? “When the costs of production go up, the firm produces less, which moves the supply curve up/left. This causes the price to rise. Therefore, demand drops causing the demand curve to shift down/left and reduces the quantity even more.”

2) (14 points) Answer EITHER Part A OR Part B.

A) If $TC = 5Q^3 - 2Q^2 + Q + 100$, then what are the formulas for ATC and MC? Show all work.

B) Draw the TC curve and explain why it takes its shape.

3) (14 points) Answer EITHER Part A OR Part B.

A) Draw two different demand curves for a product. These curves represent two different people’s demand curves. Draw the industry demand curve and explain how you got it.

B) What is the *bandwagon effect*? Illustrate it on the demand curve and explain why it takes that shape.

4) (16 points) Copy the table into your test booklet. Fill it in. Show the calculations which gave you the answers and briefly explain how you got the entries which have no calculations.

Q	TR	MR	AR
0			
2	100		
4			40
	210	25	

5) (18 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for milk. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

A) The price of ice cream increases.

B) Mad cow disease forces many cows to be slaughtered.

6) (26 points) Answer EITHER Part A OR Part B.

A) What is a *Learning Organization*? Why does it require *personal mastery* and a *new mental model*?

B) What is *TQM*? Why does it require *clear strategic goals* and *be tailored to the firm*?