

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 180 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

A) What would you expect the own-price elasticity of Exxon gasoline’s demand curve to be? Tell me a number and explain how you reached that conclusion.

B) What would you expect the income elasticity of economics textbooks’ demand curve to be? Tell me a number and explain how you reached that conclusion.

2) (10 points) Answer EITHER Part A OR Part B.

A) Suppose that the formula for total costs is given by $TC = 5 - 2Q + 3Q^2$. Calculate the formulas for ATC (a.k.a. AC) and MC. Show all work and simplify your answer.

B) What is the difference between corporate profits and economic profits? Give an example of how they are different.

3) (16 points) Illustrate EITHER an increase in the price of trucks OR an increase in the price of labor on the supply and demand for buses. Explain why the curve(s) moved as drawn. What happened to the price of buses and the quantity sold?

Q	TC	ATC	MC
	0		
1	30		
3		20	
5			20
	126		26

4) (16 points) Answer EITHER Part A OR Part B.

A) What is meant by *benchmarking*? What is a potential problem with doing it?

B) What is meant by *TQM*? Why should it have a few clear strategic goals?

3) (20 points) Copy the table to the upper-right into your bluebook. Fill it in. Show all calculations. If there are no calculations, briefly state how you reached your conclusion.

Q_B	P_B	P_o	I
10	3	5	90
3	4	4	90
8	3	4	90
7	4	4	110

6) (28 points) Answer EITHER Part A OR Part B.

A) Use the table to the lower-right to calculate the own-price elasticity of bananas and the cross-price elasticity between oranges and bananas using the point elasticity formula. Calculate the income elasticity of demand for bananas using the arc elasticity formula. Explain how you chose which entries to use for each calculation and tell me what those numbers mean.

B) Suppose the demand curve for pears is given by $Q_p = 13 + 0.1*I - 0.4*P_p - 0.2*P_s + 0.25*P_c$ where the “s” subscript represents strawberries and the “c” subscript represents cherries. If $I = 100$, $P_p = 5$, $P_s = 10$, and $P_c = 4$, then what are the income elasticity and own-price elasticity of demand for pears? What are the cross-price elasticities of demand between pears and strawberries and between pears and cherries? Show all work and explain what information the four elasticities give you.