

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 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) For EITHER Part A OR Part B, determine if that event will affect fixed costs, variable costs, or both types of costs. Explain your logic.

A) Coal prices go down for Bethany College. (We use coal to heat some of the buildings.)

B) Wood prices go up for a furniture maker.

2) (12 points) Answer EITHER Part A OR Part B.

A) What is the long-run shutdown point? Explain why it is there.

B) What is the principal-agent problem? How does it relate to corporations?

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

A) Perfectly competitive markets have several parts to the definition which impact the graph. One of them is that there is there are a large number of goods producing identical products. How is that seen in the graph? Explain your logic.

B) Monopolistically competitive markets have several parts to the definition which impact the graph. One of those assumptions is free entry and exit. How is that seen in the graph? Explain your logic.

4) (14 points) Answer EITHER Part A OR Part B.

A) What is the profit maximizing equation for all firms? Why is that profit maximizing?

B) Why might it be good to let a company go bankrupt?

5) (20 points) Copy the chart to your exam booklet and fill it in. Show all work. If you are stuck and you need one number to get the rest, just guess. You will get no points for that cell, but as long as your other calculations are done correctly, you will get points for them.

Q	TC	TVC	ATC	AVC	AFC	MC
20	800	580	40	29	11	29
22						40

6) (30 points) Answer EITHER Part A OR Part B.

A) Draw the ATC/AVC/MC/D diagram for a perfectly competitive firm which is losing money but staying open. Find the quantity produced, price charged, and losses. What will happen over time? Illustrate the effects. Explain why the curves moved as drawn and why they stopped when they did. Assume it is a constant cost industry.

B) Draw the ATC/AVC/AFC/MC diagram for a firm. Illustrate the effects of an increase in a fixed cost. Explain why the curve(s) moved as drawn.