Please read the exam carefully. The exam is worth 150 points with 35 multiple choice questions (3 points each) and 1 question that requires a graph (30 points). Please use the back of your PARSCORE form to do question 36. You will start with 15 points.

All multiple choice questions are of equal value. All points will be awarded according to the correct answer. There is no deduction for incorrect answers. Mark your answers so that they can be properly read. Markings that are not read properly by the grading machine may not be given credit, even if they are correct answers.

Please be sure to:

-- Mark the bubbles for your name
   NOTE: Please put a space between your last name and your first name. You do not need to put your middle initial
-- Mark the bubbles for your ID number
-- Mark the bubble for the test version that you are using

You do not need to complete other information (phone number, etc.)

There will not be any tolerance for cheating and other inappropriate behavior. You may not have anything on your desk except this exam, a writing utensil, and a foreign language dictionary if you need it. If there is anything else on your desk, your exam will be removed and you will receive a zero for this exam. You must have a different colored exam than anybody working next to you. If you have the same colored exam as your neighbor, both exams will be removed and both persons will receive a zero for the exam.

Part I – Multiple Choice (35 Questions, 105 Points)

For Questions 1 through 3, please use the following diagram:
1. In the diagram, what is the price the price that consumers pay and the price that producers receive when there is a tax on producers of $1?

a) Consumers pay the price at Point A; Producers receive the price at Point A
b) Consumers pay the price at Point C; Producers receive the price at Point D
c) Consumers pay the price at Point A; Producers receive the price at Point B
d) Consumers pay the price at point D; Producers receive the price at Point C
e) Consumers pay the price at point X; Producers receive the price at Point X

2. Which of the following could be the price that consumers pay and the price that producers receive if there is a binding price floor?

a) Consumers pay the price at Point A; Producers receive the price at Point A
b) Consumers pay the price at Point C; Producers receive the price at Point D
c) Consumers pay the price at Point A; Producers receive the price at Point B
d) Consumers pay the price at point D; Producers receive the price at Point C
e) Consumers pay the price at point X; Producers receive the price at Point X

3. In the diagram, what is the total amount (with tax or subsidy) that consumers pay and the amount (with tax or subsidy) that producers receive when there is a tax on consumers of $1 and a subsidy to producers of $1?

a) Consumers pay the price at Point A; Producers receive the price at Point C
b) Consumers pay the price at Point C; Producers receive the price at Point D
c) Consumers pay the price at Point A; Producers receive the price at Point B
d) Consumers pay the price at point D; Producers receive the price at Point C
e) Consumers pay the price at point X; Producers receive the price at Point X

For Questions 4 through 7, please use the following information for the costs of a firm in a competitive market.

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<th>Variable Cost</th>
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<td>8</td>
<td>6</td>
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4. What is the Marginal Cost of Producing the 3rd unit?

a) $10
b) $12
c) $14
d) $16
e) Cannot be determined
5. What is the Average Cost of Producing the 3rd unit?

a) $11  
b) $12  
c) $13  
d) $14  
e) Cannot be determined

6. If the price of output is $12, how many units of output will this firm supply to the market?

a) Zero units, the firm will not produce  
b) 2 units  
c) 3 units  
d) 4 units  
e) 5 units

7. If the price of output is $14, how many units of output will this firm supply to the market?

a) Zero units, the firm will not produce  
b) 2 units  
c) 3 units  
d) 4 units  
e) 5 units

8. Which of the following best describes the best government policy when there are common resources instead of private resources?

a) The government should not intervene and should let the market allocate resources because the market is always produces a social optimum  
b) The government should intervene with a tax so that the externality is internalized  
c) The government should intervene so that there are no “free riders”  
d) The government should intervene so that the level of production is based on marginal product, not average product  
e) The government should intervene because firms are price-makers, not price-takers

9. Which of the following best explains why tradable pollution permits are preferable to mandatory restrictions on the amount that each firm can pollute?

a) The mandatory restrictions do not reduce pollution  
b) With the permits, the firms that find it most cost-effective to reduce pollution are the ones that do so  
c) With the permits, the firms that pollute the most are always the ones that reduce pollution  
d) With the permits, there is no externality to pollution  
e) With the permits, there is no pollution

10. Which of the following best describes budget situation of the federal government of the United States?

a) The federal government has a budget surplus  
b) The federal government budget is in balance (neither surplus nor deficit)  
c) The federal government has a budget deficit  
d) The federal government does not have its own budget  
e) The federal government budget cannot be defined
11. The Marginal Product of Labor is best described as which of the following?

- a) The additional amount of labor that is required to produce the last unit of output
- b) The additional cost of producing the last unit of output
- c) The additional output resulting from hiring the last worker
- d) The output of marginalized labor
- e) The welfare loss from worker inefficiencies

12. In game theory (such as that discussed for oligopoly), a dominant strategy is best described as which of the following?

- a) A strategy that yields the best possible outcome
- b) A strategy that avoids the worst possible outcome
- c) A strategy that forces the opponent to adopt his/her worst strategy
- d) An overwhelming strategy
- e) A strategy that is played no matter what the opponent does

13. When supply is perfectly inelastic and demand is neither perfectly inelastic nor perfectly elastic, an increase in consumer income will lead to which of the following?

- a) Equilibrium price increases, equilibrium quantity increases
- b) Equilibrium price stays the same, equilibrium quantity increases
- c) Equilibrium price decreases, equilibrium quantity increases
- d) Equilibrium price increases, equilibrium quantity stays the same
- e) Equilibrium price decreases, equilibrium quantity decreases

14. Human capital is best described as which of the following?

- a) The hiring of labor for future use by a firm
- b) Skills accumulated through education or labor market experience
- c) Employees in firms that manage investment funds
- d) The fixed costs of the firm
- e) The size of the population

15. The slope of the budget constraint (in the consumer decision with two goods) is best characterized by which of the following (with a negative sign in front)?

- a) The ratio of the satisfaction achieved from the two goods
- b) The income of the consumer divided by the price of each good
- c) The income of the consumer divided by the marginal utility of each good
- d) The ratio of the prices of the two goods
- e) The ratio of the (diminishing) marginal utilities of the two goods

16. Which of the following best explains why workers in dangerous jobs earn more money for otherwise similar work than workers in safe jobs?

- a) Wages are efficient
- b) Efficiency wages
- c) Differences in human capital
- d) Compensating differentials
- e) Discrimination
17. Which of the following is least likely to contribute to the lower average weekly earnings of white women compared to the average weekly earnings of white men (for full-time work)?

a) Differences in education levels  
b) Differences in labor market experience  
c) Differences in representation by unions  
d) Differences in compensating differentials  
e) Discrimination

18. Government policy to reduce poverty is NOT targeted to which of the following groups?

a) Children in poverty  
b) Elderly in poverty  
c) Disabled persons in poverty  
d) Working age persons in poverty  
e) Single mothers of pre-school children in poverty

19. Which of the following was NOT an objective of the Welfare Reform that occurred in 1996?

a) To increase the availability of food stamps to poor households  
b) To reduce the time persons that can work stay on welfare  
c) To transfer administration responsibility from the federal government to the state governments  
d) To increase the proportion of teenage mothers that stay in high school  
e) To reduce benefits to immigrants

20. Which of the following best describes how a consumer decides how much to purchase of each good?

a) The consumer purchases goods with the lowest prices  
b) The consumer purchases the goods that give the highest utility  
c) The consumer purchases good that have the highest quality  
d) The consumer purchases goods that have the lowest taxes  
e) The consumer maximizes utility subject to his or her budget constraint

21. Which of the following best describes the budget constraint?

a) The combinations of goods that give the same level of satisfaction  
b) The combinations of goods that are desired  
c) The income of the consumer  
d) The combinations of goods that can be purchased by the consumer  
e) The difference between revenues and expenditures

22. Which of the following best describes the definition of the poverty rate?

a) The income necessary to purchase the basic basket of goods  
b) The percent of households with incomes below the poverty line  
c) The proportion of income held by the bottom quintile of the population  
d) About 12.1 percent  
e) The equilibrium wage
23. Which of the following is most likely to happen in the labor market when the price of machines falls?

a) Equilibrium wage increases, equilibrium employment increases  
b) Equilibrium wage increases, equilibrium employment decreases  
c) Equilibrium wage decreases, equilibrium employment increases  
d) Equilibrium wage decreases, equilibrium employment decreases  
e) Change in equilibrium wage uncertain, equilibrium employment increases

24. With a backward bending labor supply curve, which of the following best describes what could NOT happen when there is a shift to the right of the labor demand curve?

a) Equilibrium wage increases, equilibrium employment increases  
b) Equilibrium wage increases, equilibrium employment stays about the same  
c) Equilibrium wage increases, equilibrium employment decreases  
d) Equilibrium wage decreases, equilibrium employment decreases  
e) Both c) and d) are impossible

For Questions 25 through 28, please use the following diagram:

25. Which of the following describes the change in the optimal point for the consumer when the price of Good Y decreases?

a) Movement from Point B to Point A  
b) Movement from Point D to Point E  
c) Movement from Point C to Point D  
d) Movement from Point B to Point D  
e) Movement from Point D to Point B
26. Which of the following best describes the total change in consumer demand for Good Y when the price of Good Y decreases?

a) Change in quantity from Y_D to Y_B.
b) Change in quantity from Y_D to Y_C.
c) Change in quantity from Y_C to Y_B.
d) Change in quantity from Y_B to Y_C.
e) Change in quantity from Y_B to Y_D.

27. Which of the following best describes the substitution effect on the quantity demanded of Good Y when the price of Good Y decreases?

a) Change in quantity from Y_D to Y_B.
b) Change in quantity from Y_D to Y_C.
c) Change in quantity from Y_C to Y_B.
d) Change in quantity from Y_B to Y_C.
e) Change in quantity from Y_C to Y_D.

28. Which of the following best describes the income effect on the quantity demanded of Good Y when the price of Good Y decreases?

a) Change in quantity from Y_C to Y_B.
b) Change in quantity from Y_D to Y_C.
c) Change in quantity from Y_C to Y_B.
d) Change in quantity from Y_B to Y_C.
e) Change in quantity from Y_C to Y_D.

29. If X is an inferior good, what will happen to the consumer’s quantity demanded of Good X when the price of Good X increases?

a) Quantity demanded increases
b) Quantity demanded stays the same
c) Quantity demanded decreases
d) Change in quantity demanded uncertain
e) The consumer does not consume Good X

30. If X is a normal good, what will happen to the consumer’s quantity demanded of Good X when the price of Good Y increases?

a) Quantity demanded increases
b) Quantity demanded stays the same
c) Quantity demanded decreases
d) Change in quantity demanded uncertain
e) The consumer does not consume Good X
31. Recently, the price of gasoline has been falling. If the consumption of oil is a normal good in the household consumption decision, what would expect to happen to household demand for gasoline?

a) Quantity demanded of gasoline by the household increases  
b) Quantity demanded of gasoline by the household stays the same  
c) Quantity demanded of gasoline by the household decreases  
d) Quantity demanded of gasoline by the household is uncertain (could increase or decrease)  
e) Quantity demanded of gasoline by the household cannot be determined

32. Housing prices in Southern California have increased significantly over the last ten years and more houses are being built (quantity of houses is increasing). Which of the following best explains these two phenomena?

a) Houses have become more costly to build  
b) Demand for housing (at each level of the price) has increased  
c) Demand for housing (at each level of the price) has decreased  
d) Supply of houses (at each level of the price) has increased  
e) Supply of houses (at each level of the price) has decreased

33. Parking at CSULB has become difficult on Tuesday and Thursdays with too many cars for the number of spaces. Which of the following might explain this phenomenon?

a) The supply of spaces (at each level of the price) is too low  
b) The demand for spaces (at each level of the price) is too high  
c) The University has set a price control too low  
d) The University has set a price control too high  
e) There is no explanation

34. Which of the following policies by the University could NOT eliminate any shortages in parking

a) Subsidize parking fees  
b) Increase the price the University charges for parking  
c) Build more parking lots  
d) Get more people to use the bus  
e) Draw the lines closer together so that there are more spaces in each lot

35. The Bush administration would like to lower taxes on firms. The objective of this policy is best described as which of the following?

a) Shift the demand curve to the right  
b) Shift the demand curve to the left  
c) Shift the supply curve to the right  
d) Shift the supply curve to the left  
e) Lower the government budget deficit
Part II – Short Answer (30 points)

Please use the back of your Parscore form to do question 36. Please draw a separate graph for each part of the question. You must label your graph, identify key points and quantities

36. Consider a consumer that purchases pizza and salad. For this consumer, salad is a normal good and pizza is an inferior good.

a) (10 points) In the initial situation, the income of the consumer is $100, the price of pizza is $10, and the price of salad is $5. With this income and prices, the consumer chooses to spend half his money on each of pizza and salad. Please draw the budget constraint and indifference curve (at the optimum point) of this consumer.

b) (10 points) Please show what would happen if the income of this consumer increased to $150 (and prices do not change). You do not need to put numbers on the consumption of each good, but be sure to show where the consumer’s optimal point after the change. Please indicate whether the consumption of pizza and salad increases or decreases following the change.

c) (10 points) Starting from the initial point (i.e. not after the change in income), please show what happens to the consumption of pizza and salad if the price of salad increases. You do not need to put numbers on the consumption of each good, but be sure to show where the consumer’s optimal point after the change. Please indicate whether the consumption of pizza and salad increases or decreases following the change.