ECON-2510 Name________________________
Exam 1 March 25, 2010

1. GATT stands for__________________________________________________.
2. The population of the U.S. is about ______________________________
3. The picture of _______________________ is on the $10 bill..

Answer four (4) of the following six (6) questions.

1. Describe the basic determinants of demand. How would this be illustrated if there was a change in any of the determinants? Use a graph to help illustrate your answer.

2. What is meant by the price elasticity of demand? How is it measured? How can it help producers decide what to produce? What does totally inelastic, totally elastic mean? How is total revenue related to price elasticity of demand?

3. Given the table below assume before trade China produces at B and the United States at U.

| | China Production Possibilities | | | | | |
|---|---|---|---|---|---|---|
| **Product** | A | B | C | D | E | F |
| Apparel (in thousands) | 30 | 24 | 18 | 12 | 6 | 0 |
| Chemicals (in tons) | 0 | 6 | 12 | 18 | 24 | 30 |

| Mexico Production Possibilities | | | | | |
|---|---|---|---|---|---|
| R | S | T | U | V | W |
| 10 | 8 | 6 | 4 | 2 | 0 |
| 0 | 4 | 8 | 12 | 16 | 20 |

What should each area specialize in? Why would there be a gain from specialization? What might the terms of trade be? Why? What concepts apply?

4. What is a public good (vs. private good)? What are externalities? How can they be either positive or negative? How or why should there be corrective actions taken?

5. Given the following table of marginal utility for X and Y:

| Units of X | $MU_x$ | Units of Y | $MU_y$ |
|---|---|---|---|
| 1 | 10 | 1 | 8 |
| 2 | 8 | 2 | 7 |
| 3 | 6 | 3 | 6 |
| 4 | 4 | 4 | 5 |
| 5 | 3 | 5 | 4 |
| 6 | 2 | 6 | 3 |

If your income is $9 and the prices of X and Y are $2 and $1, respectively, what quantities of each will you purchase to maximize utility? What total utility will you realize? Assume that, other things remaining unchanged, the price of X falls to $1. What quantities of X and Y will you now purchase? How could this information be used to explain demand for a product?

6. Assume the following cost data for a purely competitive firm.

| Output | AFC | AVC | ATC | MC |
|---|---|---|---|---|
| 1 | $300 | $100 | $400 | $100 |
| 2 | 150 | 75 | 225 | 50 |
| 3 | 100 | 70 | 170 | 60 |
| 4 | 75 | 73 | 148 | 80 |
| 5 | 60 | 80 | 140 | 110 |
| 6 | 50 | 90 | 140 | 140 |
| 7 | 43 | 103 | 146 | 180 |
| 8 | 38 | 119 | 156 | 230 |
| 9 | 33 | 138 | 171 | 290 |
| 10 | 30 | 160 | 190 | 360 |

If the price is $55 how much should the firm produce? What if the price was $200? What would be the profit (or loss) in each case? What if the product price was $120? What is meant by the shutdown and the break-even points?