

**ECON 102: Microeconomics**

**Your Name:** (25 points) \_\_\_\_\_

**Instructor: Murray, James**

**Exam 2**

1. The current economic recession has resulted in large drops in the value of stocks. For millions of people who have invested their savings in the stock market, the value of their lifetime savings have decreased.

(a) (5 points) What impact will this have on the market for goods? What is the effect on the quantity of goods produced and the price of goods produced? Illustrate your answer with supply and demand curves for goods.

(b) (5 points) What impact does the change in price found in problem (a) have on the labor market? What is the effect on the wage and total employment? Illustrate your answer with supply and demand curves for labor.

2. Use the information about a *perfectly competitive firm* in the following table to answer the questions that follow.

Quantity	Total Cost	Average Total Cost	Marginal Cost
0	34		
1	40		
2	42		
3	43		
4	50		
5	64		
6	88		

- (a) (5 points) What is the firm's fixed cost?
- (b) (5 points) If the equilibrium market price is equal to \$7, how much will the firm produce in order to maximize its profits?
- (c) (5 points) If the equilibrium market price is equal to \$7, what will be the total revenue, total cost, and total profit for this firm?
- (d) (5 points) What will happen to the price and profit in the long run?

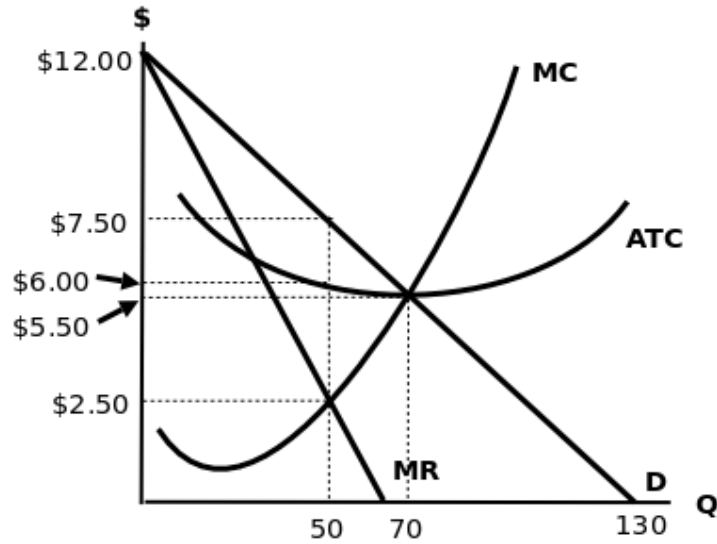
3. Answer the following questions comparing perfect competition with single-price monopoly.

(a) (5 points) Which type of market results in more production in the long run? Include a graph in your explanation.

(b) (5 points) How does the long-run price compare to the average total cost for a monopolist and for a perfectly competitive market? Show your answer with appropriate graphs.

(c) (5 points) Which market type is more efficient? Why? Show your answer with appropriate graphs.

4. Use the following figure describing a monopoly to answer the following questions.



- (a) (5 points) If this is a single-price monopolist, what is the profit maximizing level of production?
- (b) (5 points) At the profit maximizing choice, what is total revenue, total cost, and profit equal to?
- (c) (5 points) At the profit maximizing choice, is demand elastic, inelastic, or can this not be determined? Explain.

(d) (5 points) What would be the long run price if this was a perfectly competitive firm?

(e) (5 points) What is the size of the monopolist's markup?

(f) (5 points) What would the profit and quantity be if this monopolist was able to engage in perfect price discrimination?