

ECO 150, Winter 2022, Practice Exam #2

Name:

Instructions:

1. This exam consists of thirteen questions and a bonus. Answer them all. You are encouraged to use the models from class when formulating your answers.
2. Some questions are open ended. You will be graded more on the quality of your explanation than your specific answers. On “true/false” questions, for example, answering only “true” or “false” will receive no credit, even if correct.
3. Do not just copy from the course materials. Doing so will receive no credit.
4. This is an open note exam. You may use your notes, the textbook, and all course materials from the website. You may use electronic versions of these materials as well. You may not, however, use other materials, access the internet for any reason besides obtaining the allowed materials, or solicit help from any other person while taking this exam.

Please sign the following statement:

In completing this exam, I did not access any online resources besides the approved course materials, the textbook, and my own notes, nor did I communicate with any other student or person about this exam. I understand that doing so would be a violation of the Student Conduct Policy.

Sign:

Printed Name:

1. Explain the motivation behind imposing sanctions which ban the importing of some goods to a country (*e.g.* Russia in 2022).

2. Explain how banning Russia from SWIFT could impact its economy.

For questions #3-6, consider the following data:

Table 1: Market for Rainbow Unicorn Bang

Units	Marginal Utility	Marginal Cost
1	\$1000	\$1
2	\$500	\$10
3	\$300	\$20
4	\$200	\$30
5	\$100	\$80
6	\$30	\$200
7	\$20	\$300
8	\$10	\$400
9	\$5	\$1000
10	\$2	\$2000

3. Assume perfect competition. Solve for the equilibrium price and quantity.

4. Suppose that Rainbow Unicorn Bang is proven to prevent all illness. What will happen to the equilibrium price and quantity under perfect competitions?

5. Now suppose that the consumer of Rainbow Unicorn Bang is both heroic and a monopsonist. Solve for the price and quantity.

6. Calculate deadweight loss from the existence of monopsony. Explain why monopsony generally reduces efficiency.

7. Suppose that an airline enjoys significant market power. Provide a plausible reason for why new firms do not enter the market and undercut the monopolist.

8. Consider the example, discussed in class, of the breakup of Standard Oil. Explain how scarcity applies to this example.

9. What risk does the Federal Reserve take if it raises interest rates too slowly?

10. Why does the Federal Reserve pay special attention to core-inflation, which takes out food and energy prices?

For questions #11-12, consider the following data:

King's Landing has 10 hours of labor. It takes one hour to produce a ship and two hours to produce a sword.

Winterfell has 8 hours of labor. It takes two hours to produce a ship and one hour to produce a sword

11. Which country has a comparative advantage in which good? Does either country have an absolute advantage?

12. Design a trade that would benefit each country.

Two mobsters, Ellen and Isla, are accused of a crime. Their choices are to rat or keep their mouths shut. The payoffs are years in prison, which they would prefer to avoid.

Table 2: Payoffs for (E, I)

	I Rats	I Shuts Up
E Rats	(10,50)	(10, 5)
E Shuts Up	(5, 10)	(10,0)

13. What choices would you expect Ellen and Isla to make?

True or False? A higher minimum wage always increases deadweight loss.