ECO 150, Winter 2022, Practice Exam #1

Instructions

1. This exam consists of thirteen questions. Answer them all. You are encouraged to use the models from class (especially supply and demand) 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. How does scarcity apply to the Aral Sea disaster discussed in class?

2.The Federal Reserve is considering raising interest rates. What tradeoffs are involved with its decision?

3. How would a distortionary tax on gasoline affect the incentives of consumers?

Consider the market for Pringles. Assume that both firms and households are price takers and that they have full information.

Table 1: Market for Pringles

Units	Marginal Utility	Marginal Cost
1	20	1
2	18	2
3	16	3
4	14	5
5	10	7
6	9	9
7	8	11
8	7	15
9	6	20
10	5	30

4. Suppose that firms also have a fixed cost (possibly due to a fixed capital stock). Explain why this affects neither the demand nor supply curves.

5. Graph supply and demand. Solve for the equilibrium price and quantity.

6. Suppose that workers' wages increase. How would this affect the model's equilibrium?

7. Suppose that the price of Pringles rises from 5 to 7. Calculate the price elasticities of supply and demand.

8. Suppose that the price of single malt scotch (known the world over as a perfect compliment to Pringles) increases. How will this affect the model's equilibrium?

9. Suppose that the government imposes a price ceiling on Pringles. Will this create deadweight loss.

10. Suppose that the government forbids any type of potato chip besides Pringles, giving the supplier a monopoly. How will this affect the model?

11. Consider water from a lake. Suppose that there is excess demand for drinking water from the lake but that there is no way to prevent people from taking the water. Is this a public good?

12. True or False? In a free and unregulated market, private firms will underprovide education. explain.

13. Suppose that there is a policy that increases the income of the wealthiest 1% of the population by 50% but that this policy does not affect the income of the other 99%. Explain why this is or is not a Pareto improvement?