Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Econ 280

**Exam 01**

* There are 110 possible points on this exam. The test is out of 100.
* You have one hour to complete this exam, but you should be able to complete it in less than that
* Please turn off all cell phones and other electronic equipment.
* You are allowed a calculator for the exam. This calculator cannot be capable of storing equations. This calculator cannot double as a cell phone.
* Be sure to read all instructions and questions carefully.
* Remember to show all your work.
* Recall basic logic. “Water is wet” is a true statement. “Water is wet and leopards have stripes” is a false statement.
* *Please print clearly and neatly.*

**Part I: Multiple Choice.** *Choose the best answer to the following.* 5 points each.

1. Which of the following is an example of 2nd degree price discrimination?
   1. Coupons
   2. Buying one lets you get the second one at half price
   3. Buying in bulk
   4. B & C
   5. None of the above
2. What is 1st degree price discrimination also called (as in, another name for it, not an example)?
   1. Perfect price discrimination
   2. Bundling
   3. Tying
   4. A & B
   5. None of the above
3. Fred the baker lowers his price on bread which causes his revenues to increase. What does this suggest about the elasticity of demand of his bread?
   1. It is elastic because quantity demanded increase disproportionately more.
   2. It is inelastic because bread is a relatively small part of a person’s budget.
   3. It is elastic because there are many substitutes for Fred’s bread.
   4. A & C
   5. None of the above
4. Which of the following most likely has a perfectly inelastic supply curve?
   1. Seeds for fruit trees
   2. Health insurance
   3. Prehistoric cave paintings
   4. *Star Wars* movies
   5. None of the above
5. Price discrimination:
   1. Results in two different prices for the same good.
   2. Eliminates deadweight loss.
   3. Requires price setting power.
   4. A & C
   5. None of the above
6. Which of the following is ***not*** one of Adam Smith’s explanations why specialization encourages efficiency?
7. Less time switching between tools
8. Natural talent matches specific jobs
9. Learned dexterity
10. A & B
11. None of the above
12. US Highway 12 is part of a two-lane artery from the seaports in Washington State to the tar sands in Canada. Extracting oil from the tar sands requires very large equipment: transporting it takes up both lanes of US 12. In August of 2010, Idaho granted ConocoPhilips a road permit which allowed it to transport four oil processing units. Without this permit, ConocoPhilips would have to those units a much longer distance to get to their destination. If no permits for US 12 were allowed, how would that affect the elasticity of which curve in the market for oil?
    1. The supply curve would become more elastic
    2. The supply curve would become less elastic
    3. The demand curve would become more elastic
    4. A & C
    5. None of the above
13. Wanda runs a business making and selling fuel injectors. Her customers are small repair shops. Then she hears that General Motors is interested in getting a new fuel injector supplier but to even have a chance at winning their business, Wanda will have to drastically upgrade her production capacity. What kind of specialized investment is Wanda making?
14. Site specificity
15. Physical-asset specificity
16. Dedicated asset
17. Human capital
18. None of the above
19. In the market for backpacks, suppose 100 backpacks are sold at $40 each. Then a fall in wages results in the price of backpacks selling for $20 each with 500 backpacks sold. Using the midpoint method (or arc elasticity), what is the absolute value of the elasticity of demand for backpacks?
    1. 0.125
    2. 0.50
    3. 2.00
    4. 8.00
    5. None of the above
20. How would the Coase Theorem suggest people remove a negative externality?
21. Bargaining/trading
22. Taxing the externality
23. Subsidizing the externality
24. B *or* C
25. None of the above

**Part II: True/False.** *Answer true or false, and justify your answer.* 10 points each.

1. Consider the fact that vendors often travel to the headquarters of large retailers (e.g. Costco and Wal-Mart) to try to encourage them to stock their goods. Also consider the fact that most of these meetings do not go well for the vendor. With these facts in mine, vendors tend not to try as they should when at these meetings.

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1. If Europe had more mountains crisscrossing it, more morticians would double as medical examiners. (HINT: Morticians and medical examiners are often the same person in a small town.)

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1. Both rebates and bundling are examples of 3rd degree price discrimination.

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**Part III: Short Answer.** *Answer the following.* 15 points each.

1. Matilda “Maharajah of Meditation” Mason maintains Mega Mats, a mattress manufactory and maker of the Massive Mat. Massive Mats are carefully made gigantic mattresses, requiring a great deal of specialized equipment that won’t work with padding of any other size or texture. Suppose that the price of her mattresses falls thanks to a reduction in employment (people can no longer afford an oversized mattress). Once selling 3,000 Massive Mats at $500 each, Matilda’s now selling 2,000 at $300 each. Using arc price-elasticity, calculate the elasticity of supply and indicate if the supply of Massive Mats is elastic, inelastic, or unit elastic. Then explain why your answer makes sense given the information above and keeping in mind the determinants of elasticity of supply.

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1. We discussed why productivity increases when people specialized. Specifically, we discussed two basic theories: one from Adam Smith and one from David Ricardo. Explain the difference between these theories. Also provide an example of a ***person***’s specialization leading to greater productivity that either Ricardo or Smith could explain but the other could not. Be sure to justify your answer.

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