

Midterm Exam.

Econ 101
Professor Guse

Monday October 13, 2008.

Instructions. You have 55 minutes to complete the exam. There are 9 questions with a total of 55 points available. Please write your responses on the exam itself in the space provided. If you require additional space, write on the back of the page. You may refer only to your own handwritten, two-sided, “cheat sheet”. Calculators and all other references materials are *not* allowed. If a question asks for a numeric quantity you may leave your answer in expression form for full credit. (e.g. “ $\frac{40-30}{5}$ ” would be perfectly acceptable in place of “2”.) Be sure to label any diagrams you draw, to show your work and to explain your reasoning. Please turn in your cheat sheet with your exam. Thank you and good luck!

Name:

Pledge:

4. (5 Points) Suppose the market for a normal good is competitive, describe what would happen to the equilibrium price and quantity if consumers' income increased? Explain.
5. (8 Points) When the price of bread is \$4.00 per loaf, Eve consumes 100 loaves of bread per year. Eve's own-price elasticity of demand for bread is -0.5 . Approximately, what is Eve's demand after the price decreases to \$3.60 per loaf? Be sure to show your work.

6. (4 Points) Becker argues that the benefit of a lengthy appeal process in capital murder cases is ----, while the cost is -----.

7. (5 Points) Wilford Brimley dies of a heart attack causing the demand for oats to plummet. This decreases the price of oats. Many farmers can choose to grow oats or barley. What will happen to the price of barley? Explain using a diagram.

8. (12 Points) The price of cookies is \$1 each. The price of milk is \$1 per glass. When Cookie Monster (CM) is given \$300 in cash, he chooses to buy 250 cookies. On the other hand, if you give CM \$200 in cash and \$100 in milk vouchers, he spends all of his cash on cookies and drinks 100 glass of milk. In this case, what can you say about CM's *marginal rate of substitution* of milk for cookies? In other words, what is CM's MRS at the point (cookies, milk) = (200,100)? Explain using a diagram. Be sure to interpret your answer.

9. (10 Points) The RNC's PPF for GOP held U.S. Senate and House seats is bowed out.¹ Explain what this shape means for them. A good explanation will probably include a diagram.

¹Abbreviations...

- RNC = Republican National Committee. The national organization representing the Republican party who coordinates campaign efforts of republican candidates among other things.
- GOP = "Grand Old Party", a nickname for the Republican Party.
- PPF = production possibility frontier. (You should know that.)