

3. The table provided shows the marginal utility for Lucy when she consumes Good X and Good Y.

Quantity of Good X	Marginal Utility of Good X (utils)	Quantity of Good Y	Marginal Utility of Good Y (utils)
1	20	1	28
2	16	2	24
3	12	3	16
4	8	4	8
5	4	5	−4
6	−2	6	−8

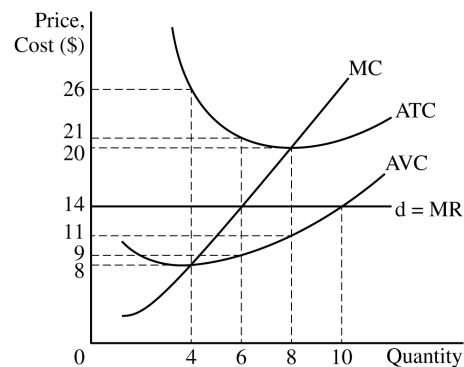
- A. If Good X and Good Y are free, how many units of each good will maximize Lucy's total utility?
- B. Calculate Lucy's total utility if she consumes 2 units of Good X and 2 units of Good Y. Show your work.
- C. Suppose instead that the price of each unit of Good X is \$2 and the price of each unit of Good Y is \$4. Lucy has a budget of \$20 to spend on the two goods.
- If Lucy purchases 2 units of Good X, what is the maximum quantity of Good Y Lucy can purchase?
 - What is Lucy's optimal combination of Good X and Good Y? Explain your answer using marginal analysis and numbers.
- D. Suppose the price elasticity of demand for Good X is -2.0 , the price elasticity of demand for Good Y is -0.8 , and the cross-price elasticity of demand between Good X and Good Y is $+1.6$. Are goods X and Y complementary goods, substitute goods, normal goods, or inferior goods? Explain.

STOP
END OF EXAM

1. Soja Farm is a typical profit-maximizing firm that produces and sells soybeans in a constant-cost, perfectly competitive market that is in long-run equilibrium. The market equilibrium price of soybeans is \$14 per bushel.
- (a) Draw correctly labeled side-by-side graphs for the soybean market and for Soja Farm, and show each of the following.
- The market equilibrium price and quantity, labeled \$14 and Q_M , respectively
 - Soja Farm's profit-maximizing price and quantity, labeled P_F and Q_F , respectively
 - Soja Farm's average total cost curve consistent with a long-run equilibrium, labeled ATC
- (b) If Soja Farm is the only firm in the market that chooses to increase its price of soybeans to \$15 per bushel, will Soja Farm's total revenue increase by \$1, remain the same, or decrease to \$0? Explain.
- (c) Soybeans are used as an input in the production of tofu. Tofu now becomes a more popular food option among consumers. On your graphs in part (a), show the short-run effect of the increased popularity of tofu on each of the following.
- The new market equilibrium price and quantity of soybeans, labeled P_2 and Q_2 , respectively
 - Soja Farm's new profit-maximizing quantity, labeled Q^*
- (d) Given the increase in popularity of tofu in part (c), what will happen to the number of firms in the soybean market in the long run? Explain.
- (e) Suppose a 25% increase in the market price of quinoa causes a 5% decrease in the quantity demanded of quinoa and a 10% increase in the quantity demanded for tofu.
- Is the demand for quinoa elastic, inelastic, or unit elastic? Explain using numbers.
 - Calculate the cross-price elasticity of demand between quinoa and tofu. Show your work.

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.

3. The graph provided shows the demand (d), marginal revenue (MR), average total cost (ATC), average variable cost (AVC), and marginal cost (MC) curves for Hansel Hangout, a typical profit-maximizing firm in a perfectly competitive market producing Good X.



- (a) Calculate Hansel Hangout's total fixed cost. Show your work.
- (b) Identify the price and Hansel Hangout's profit-maximizing quantity of Good X.
- (c) Calculate Hansel Hangout's economic profit at the quantity identified in part (b). Show your work.
- (d) As the market for Good X adjusts to the long-run equilibrium, what will happen to the price of Good X? Explain.
- (e) Assume the cross-price elasticity of demand between Good X and Good C is positive. Given the change in the long-run price of Good X in part (d), will the quantity demanded of Good C increase, decrease, or remain the same? Explain.

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.

STOP

END OF EXAM

2. The following is a table showing Dana's marginal benefit from purchasing bottles of water and good X from a grocery store.

Quantity of Water (in bottles)	Marginal Benefit of Water (in dollars)	Quantity of Good X (in units)	Marginal Benefit of Good X (in dollars)
1	24	1	24
2	18	2	18
3	12	3	12
4	6	4	6
5	3	5	3

- (a) What is Dana's total benefit from purchasing 2 bottles of water and 1 unit of good X? Show your work.
- (b) Assume the price of a unit of good X is \$5. Calculate the total consumer surplus if Dana purchases 3 units of good X. Show your work.
- (c) Now assume the price of a bottle of water is \$3 and the price of a unit of good X is \$6. Dana spends her entire budget of \$30 on bottles of water and good X.
- Explain why Dana does not maximize her benefit when she purchases 2 bottles of water and 4 units of good X. Use marginal analysis to explain your answer.
 - What are the optimal quantities of good X and bottles of water at these prices?
 - Suppose the price of a unit of good X drops to \$3. Calculate Dana's cross-price elasticity of demand for bottles of water with respect to the price of good X, and state whether the two goods are substitutes or complements. Show your work.

MICROECONOMICS**Section II****Total Time—60 minutes****Reading Period—10 minutes****Writing Period—50 minutes**

Directions: You are advised to spend the first 10 minutes reading all of the questions and planning your answers. You will then have 50 minutes to answer all three of the following questions. You may begin writing your responses before the reading period is over. It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions. Include correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes. Use a pen with black or dark blue ink.

1. The markets for bananas, muffins, and coffee are interrelated, and each market is perfectly competitive.
 - (a) In the market for bananas, the equilibrium price is \$1.00 per pound, and the equilibrium quantity is 1,000 pounds per week. Suppose the government imposes a price floor on bananas at \$1.20 per pound, causing the quantity supplied to increase to 1,500 pounds per week.
 - (i) Would the price floor result in a shortage, a surplus, or neither? Explain.
 - (ii) Calculate the price elasticity of supply if the price increases from \$1 to \$1.20. Show your work.
 - (iii) Between \$1 and \$1.20, is the supply elastic, unit elastic, or inelastic? Explain.
 - (b) Bananas are an input for muffins.
 - (i) Draw a correctly labeled graph of the market for muffins indicating the equilibrium price and quantity, labeled P_0 and Q_0 , respectively.
 - (ii) On the graph drawn in part (b)(i), show the impact of an increase in the price of bananas on the muffin market, labeling the new equilibrium price and quantity P_1 and Q_1 , respectively.
 - (iii) On the same graph, completely shade the area that represents the **change** in the consumer surplus caused by the increase in the price of bananas.
 - (c) In the market for coffee, the equilibrium price is \$3.00 per cup and the equilibrium quantity is 100 cups per week. The cross-price elasticity of coffee with respect to muffins is -2 .
 - (i) Are coffee and muffins normal goods, inferior goods, complementary goods, or substitute goods?
 - (ii) Assume the supply of coffee is perfectly elastic. Using the equilibrium price and quantity given above, draw a correctly labeled graph for the coffee market, and show the impact of an increase in the price of muffins on the coffee market.
 - (iii) Given the original quantity of 100 cups of coffee per week, if the increase in the price of muffins is 10%, calculate the new equilibrium quantity in the coffee market. Show your work.