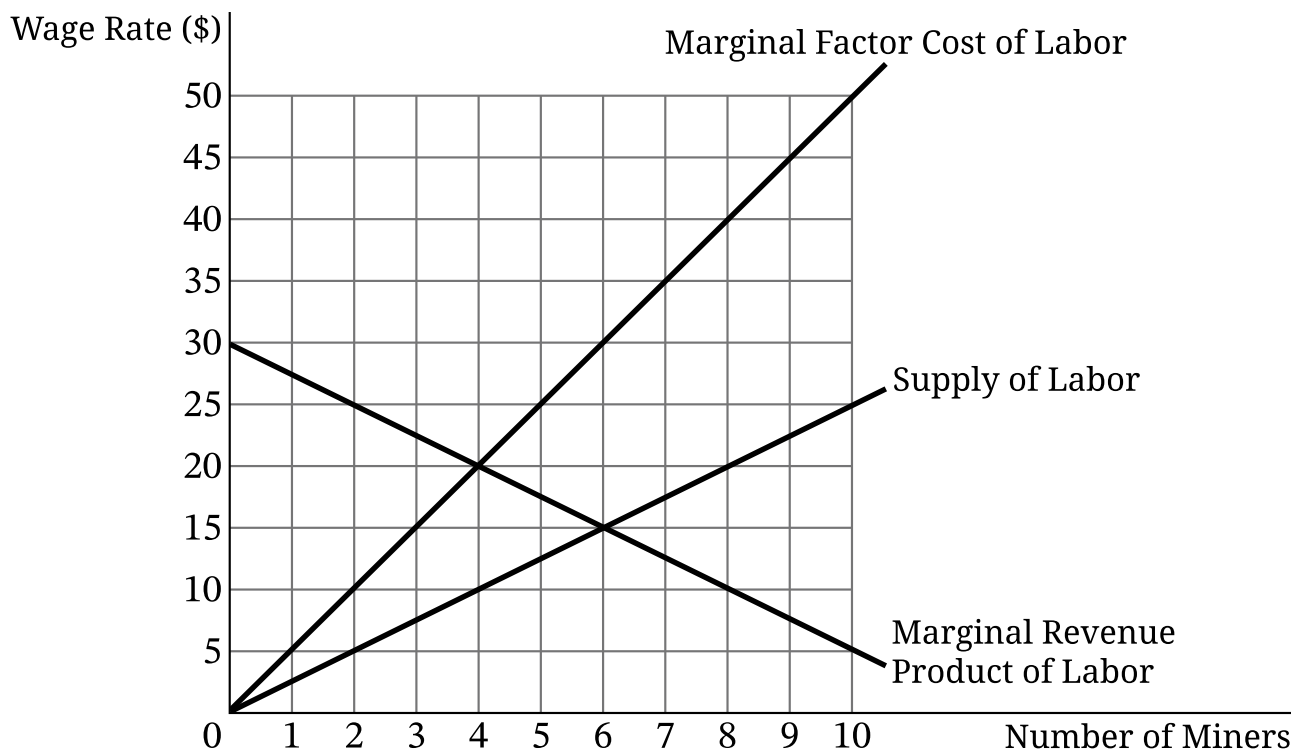


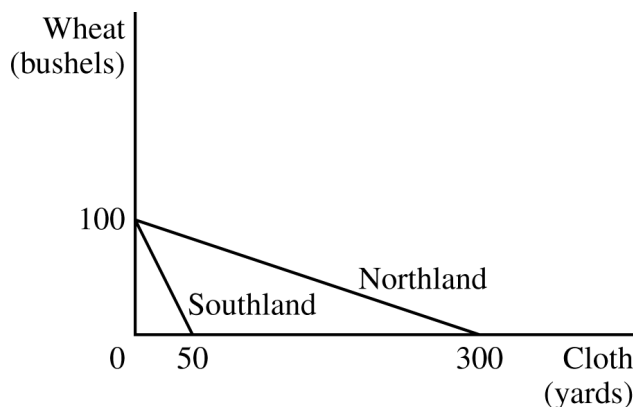
1. Voda Reservoir is a profit-maximizing firm and the only producer of bottled water in a country. Currently, Voda Reservoir is earning negative economic profit.
- A. Draw a correctly labeled graph for Voda Reservoir and show each of the following.
- The profit-maximizing quantity, labeled Q_M
 - The profit-maximizing price, labeled P_M
 - The average total cost curve consistent with Voda Reservoir earning negative economic profit, labeled ATC
 - The area of deadweight loss, shaded completely
- B. Suppose the government requires Voda Reservoir to produce the socially optimal quantity of bottled water. On your graph in part A, show the socially optimal quantity of bottled water, labeled Q_S .
- C. Suppose instead the government grants a per-unit subsidy to Voda Reservoir. What will happen to Voda Reservoir's profit-maximizing quantity of bottled water? Explain.
- D. Suppose new producers have entered the bottled-water market and Voda Reservoir continues to operate in the bottled-water market. Will the demand for Voda Reservoir's bottled water become more elastic, become less elastic, or stay the same as new producers enter the market?
- E. Voda Reservoir hires workers in a perfectly competitive labor market.
- If the demand for bottled water increases, what will happen to Voda Reservoir's demand for labor? Explain.
 - The government implements a new regulation that increases the minimum age required for a worker to be employed in a bottled-water factory. What will happen to the market wage in the short run? Explain.

2. Quartz Excavations is a profit-maximizing firm and the only employer of miners of quartz in a small town. The graph provided shows the labor market for miners.



- A. Identify Quartz Excavations' profit-maximizing number of miners to hire.
- B. Will Quartz Excavations pay its profit-maximizing number of miners a wage rate that is equal to \$15, greater than \$15, or less than \$15? Explain using numbers.
- C. Suppose the government sets a minimum wage (a price floor on wages) at \$25. Calculate the total wage bill for Quartz Excavations at the resulting profit-maximizing number of miners. Show your work.
- D. Suppose that instead of a minimum wage, there is now an increase in the demand for quartz.
- Will the marginal revenue product of miners increase, decrease, or remain the same? Explain.
 - After the demand for quartz increases, Quartz Excavations hires the new profit-maximizing number of miners. Will the marginal factor cost of the last miner hired be greater than, less than, or equal to the marginal factor cost of the last miner hired before the demand for quartz increased?

2. The graph shows the production possibilities curves for Northland and Southland.



- (a) Which country has a comparative advantage in producing wheat? Explain using numbers.
- (b) Identify a specific number of yards of cloth that could be traded for 10 bushels of wheat and would be mutually beneficial to Northland and Southland.
- (c) Southland's maximum possible output of wheat falls from 100 bushels to 75 bushels. Assuming no other changes, will Southland have a comparative advantage in producing cloth? Explain using numbers.
- (d) Turnips are produced in a perfectly competitive market in Alderia, a third country, which does not engage in international trade. Runoff from turnip fields pollutes Alderia's rivers, hurting its residents.
- Does the turnip market equilibrium result in an efficient allocation of resources? Explain using marginal analysis.
 - In an effort to reduce pollution, Alderia's government imposes a lump-sum tax on turnip production. What will be the impact on the turnip market equilibrium price and quantity in the short run?

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.