Write all answers in your blue book and show all work there.
Return your exam in your blue book.

10 pts.
1) Buildit Company has spent 1 million on the foundation of a new factory but an unusual storm has ruined it and now it must be redone. This puts the budget 1 million over planned cost and the value of the building only exceeds planned cost by .5 million. Should the building be built or not?

28 pts.
2) Suppose Q = LK
   a) Draw a well-labeled diagram that shows the isoquant where Q = 10 and a reasonable resource combination that gives Q = 10.
   b) Is the combination that you’ve shown the least cost one, if P_L = 2 and P_K = 1? Show work and find the least costly one.
   c) Show a well-labeled diagram of the TC curve when K = 2.

20 pts.
3) a) Draw a well-labeled diagram that shows how an increase in FC affects P and Q in a competitive industry.
   b) Does what you’ve shown apply to short run or the long run? Explain.

16 pts.
4) a) Draw a well-labeled diagram that shows the effect of a subsidy on P, Q and DWL.
   b) Draw a well-labeled diagram that shows the effect of a price ceiling on P, Q and DWL.

20 pts.
5) a) Draw a well-labeled Edgeworth box that shows that being on the contract curve is better than being elsewhere. Explain.
   b) Show an equilibrium in a box that is competitive.

6 pts.
6) How much does X affect Z if Z = 2Y and Y = 3X?

I have neither given nor received unfair aid on this test nor am I aware of anyone else who has.