

Second Exam

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?

28pts.

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 $K = 2$.

20pts.

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.
