

print name on the line above as your signature

INSTRUCTIONS:

1. **NOTICE: SYLLABUS REVISION.** At PDF page 3 of 7 of the Syllabus a post-Exam #4 course point total of 800 points is **required to earn the right to elect to the take the Optional Comprehensive Final Exam.**
That 800 points has been reduced so that **only 770 points are required.**
<http://cba.unomaha.edu/faculty/mohara/web/MICf10-Syllabus.pdf>
2. This Exam #4 must be completed within the allocated time
(i.e., *between 7:50 PM and 8:40 PM*). It is a **closed book** and open mind exam.
3. **Recall the material difference between i.e.** (that is) **versus e.g.** (for example).
4. When you finish your exam,
collect all of your personal items before approaching the professor
since you must promptly exit the exam room upon finishing.
As students finish their exams they will receive an answer key in exchange for their completed blue bubble answer sheets.
*For you to learn your individual exam grade
you must use your marked up copy of your exam,
so be sure to mark your answers on your copy of the exam.*
5. This Exam #4 is worth 200 of the course total of 1,000 points.
This objective exam has 21 questions graded as if there are 20.
Each correct answer on this Exam #4 is worth 10 course points.
Based upon the instructor's statistical analysis of all students' answers,
the instructor unilaterally may alter the grading of specific exam questions.
Any student may appeal the grading of any other exam questions.
However, only if a student successfully appeals the ambiguity of
AT LEAST **TWO** questions on this exam
does that student objectively demonstrate non-harmless error due to any ambiguities.
Also, a successful appeal only will change *that* student's exam grade and only will do so
by the number of successful appeals in excess of ONE successful appeals.
Appeals only affect the exam grades of those students that appeal.
6. **All appeals** of this exam's questions must be:
 - [6A] typed;
 - [6B] signed by the student in three ways, typed name, handwritten signature, and typed university identification number;
 - [6C] immediately following the signature, list in sequence, *solely by number*, each of the questions being appealed;
 - [6D] after the [6C] list, argue each question, one at a time;
 - [6E] at the beginning of each question's [6D] appeal, identify two or more reasonable meanings that the question could have had;
 - [6F] argue why one or more of the [6E] identified reasonable meanings is as appropriate or is more appropriate than the meaning used for the answer key answer; and
 - [6G] personally handed to the instructor or to the instructor's MH 228 suite secretary no later than 6:15 PM, Wednesday, December 15, time is of the essence.

NOTE: All a.k.a. (*i.e.*, *also know as*) parentheticals are true.

NOTE: All formulas inside parentheses merely slavishly repeat the text.

Accordingly,

if the text is true, then a formula inside parentheses is true;

and

if the text is false, then a formula inside parentheses is false.

NOTE: To ease your reading the text inside parentheses is italicized, but not so for formulas.

QUESTIONS:

1. **Below are three statements: a., b., and c.**

Two of those three are true. One of those three is false.

Which one is FALSE?

- a.** Speaking broadly, goods are either private goods **or** public goods. Private goods tend to strongly exhibit the characteristics of rivalry of consumption **and/or** exclusivity of possession. In contrast, public goods might exhibit some amount of both of those two characteristics.
- b.** Externalities in the form of spillover costs ($S_{\text{true}} > S_{\text{market}}$) **and/or** in the form of spillover benefits ($D_{\text{true}} > D_{\text{market}}$) are **not** the prime cause of The Tragedy of the Commons. The Tragedy of the Commons often arises when multiple, individual consumers of the commons each perceive their individual consumption of the commons as less than its dynamic limit, **but**, in aggregate their collective consumption of the commons exceeds the static limit of the commons.
- c.** If a market is an oligopoly, then it is more likely that a cartel will form; **and** once formed, that cartel might successfully capture some monopoly power. If a cartel does form, then the cartel is likely to be cohesive.

2. Below are three statements: a., b., and c. Two of those three are true. One of those three is false. Which one is FALSE?

- a. If the price elasticity of demand is **inelastic** ($E_d < 1$), then an increase in price will increase total revenue.
- b. The Shut Down Rule (*i.e., shut down if $TR < VC$*) defines a firm's marginal cost curve (MC) above the minimum value of the average variable cost (AVC_{\min}) as that firm's supply curve (S).
- c. The profit maximizing output for all firms is the output associated with the quantity supplied that equates total revenue with total cost ($TR = TC$).

3. Below are three statements: a., b., and c. Two of those three are true. One of those three is false. Which one is FALSE?

- a. A rational firm that has earned an economic loss **and** expects again to earn an economic loss might **or** might **not** immediately exit the market.
- b. A perfectly **inelastic** ($E_d = 0$) price elasticity of demand is associated with a demand curve that is vertical (*i.e., slope of ∞*).
- c. A total value is optimized (*i.e., as relevant, maximum **or** minimum*) when the marginal value equals the average value.

4. Below are three statements: a., b., and c. Two of those three are true. One of those three is false. Which one is FALSE?

- a. If the substitution effect is combined with the output effect, then the result will be either a positive change in resource demand; **no** change; **or** a negative change.
- b. If 72 is divided by the periods' interest rate stated as an integer, then the result is the number of periods needed to double or to halve an original dollar value.
- c. **No** firm obtains an economic profit from the market except as a result of its own **immoral** actions **and** market failures.

- 5. Below are three statements: a., b., and c. Two of those three are true. One of those three is false. Which one is FALSE?**
- a. If a market is a pure monopoly (*i.e., single seller*) market, then the supply curve for that firm is identical to the supply curve for the market. If a market is a pure monopsony (*i.e., single buyer*) market, then the demand curve for that firm is identical to the demand curve for the market.
 - b. A purely competitive industry maximizes its total revenue at unitary price elasticity of demand ($E_d = 1$).
 - c. An average value is optimized (*i.e., as relevant, maximum **or** minimum*) when the marginal average value equals zero.
- 6. Below are three statements: a., b., and c. Two of those three are true. One of those three is false. Which one is FALSE?**
- a. Theoretically, if a purely competitive industry is at equilibrium, **and** theoretically if all of the participating suppliers **as well as** theoretically if all of the participating benefiteres, respectively, are both able **and** willing then there are **no** externalities (*a.k.a., **no** spillover costs **and** **no** spillover benefites*).
 - b. An import quota might have zero effect on the market quantity **and/or** the market price.
 - c. The price elasticity of demand must be elastic ($E_d \geq 1$) if the seller's market includes other sellers offering very close complements.
- 7. T F** In the USA anti-trust law is about the **un**lawful use of monopoly power rather than the mere possession of monopoly power .
*(e.g., natural monopolies are **not** legally suspect).*
 The Herfindahl-Hirsch Index is one metric of the size of monopoly power. This index (*i.e.,* $HHI = \sum m_i^2$) has a range (*roughly*) from between 1 **and** 10,000. The HHI asserts that a firm's monopoly power increases by the square of its own market share **as well as** increases by the aggregation of all firm's market share squared.

- 8. T F** In economics the focus is on relative position **and** relative change more than the focus is on absolute position **or** absolute change. For example, economists do **not** see price discrimination when merely $P_a \neq P_b$; instead, economists see price discrimination only when $P_a/MC_a \neq P_b/MC_b$.
- 9. T F** Because of the relative sizes of the relevant substitution effect, the price elasticity of demand for a particular type of food is **inelastic** ($E_d < 1$) **but** the price elasticity of demand for food generally is elastic ($E_d > 1$).
- 10. T F** Food production reflects a strong seasonality (*e.g., little grows in winter*). Food consumption reflects a strong time dependency (*e.g., eat now **or** starve*). Accordingly, government subsidies to producers that do in fact create surpluses clearly are a waste of taxpayers' money because of the deadweight losses.
- 11. T F** In the USA income distribution the mean income is greater than the median income **and** the median income is greater than the mode income.
- 12. T F** For the period of within one life-time, in the USA there is significant income mobility (*e.g., start low end high **and** visa versa*). If the measuring period is one decade, then across several decades, in the USA downward income mobility of the top 20% of income earners is more likely **and** is of greater magnitude than upward income mobility of the bottom 20% of income earners (*i.e., in the USA, the poor, **not** the rich, get richer*).
- 13. T F** Because of the economist's view of price discrimination, efficient production almost necessarily requires more income **inequality** in the USA than exists today in the USA.

- 14. T F** No insurance company can be financial viable **unless** it successfully manages both moral hazards **and** adverse selection. The USA federal government requiring both
- [i] every insurer to sell health insurance to every applicant, **and**
 - [ii] every person to purchase health insurance
- is one way to manage both moral hazards **and** adverse selection.
- 15. T F** Another way to manage both moral hazards **and** adverse selection is the universal USA State law requirement that all health insurance policies:
- [i] require the insured to pay a deductible; **and**
 - [ii] require the insured to pay a co-pay; **and**
 - [iii] require the insurer pay all costs after the stop loss **and** up to the policy limits.
- 16. T F** Given that humans often are **not** as rational as economists theorize humans to be; **as well as** given variations in human's risk preferences **and** the time value of money, it is **not** surprising that the price elasticity of demand (i.e., $\% \Delta Q_d / \% \Delta P$ a.k.a. $[1 / \text{slope}] * [P / Q_d]$) for staying healthy tends to be elastic ($E_d \geq 1$); whereas the elasticity of restoring health once it is lost tends to be **inelastic** ($E_d < 1$).
- 17. T F** Lawful outsourcing of jobs by international corporations is immigration of capital coupled with arbitrage of production on the return. Clearly, both from a positivist perspective **and** from a normative perspective, such lawful outsourcing of jobs is morally superior to **illegal** immigration by individuals seeking to implement wage arbitrage.
- 18. T F** If immigrants enter the local labor market, then that entry always is as a substitute labor force (i.e., *employers either hire local employees **or** employers hire immigrant employees*).
- 19. T F** The economist's view of the gains from international trade focuses upon the country with the greatest comparative advantage in a trade.

- 20. T F** Free trade means setting tariffs, quotas, **and non**-tariff barriers.
Fair trade means setting tariffs, quotas, **and non**-tariff barriers.
Free trade differs from fair trade in the variables being optimized.
Free trade does that setting so as to favor producers with comparative advantage regardless of where those producers are located.
Fair trade does that setting so as to counteract comparative advantages which merely reflect externalities or other market failures.
From both a positivist perspective **and** from a normative perspective, free trade is superior to fair trade.
- 21. T F** Dumping is the exporting of **un**employment.