Section A: Short Answer Questions (6 points)

Question 1 (2 points)
How does a Bear Market differ from a Bull Market?

Bear: Stock prices tend to go down & People HOLD or SELL Stocks

Bull: Stock prices tend to go up & People BUY stocks

Question 2 (4 points)
In class, we discussed five characteristics of a perfectly competitive market. List FOUR.

1) Many buyers & sellers
2) No Barriers to entry or exit OR Free Entry & Exit
3) Zero economic profit
4) Firms are price takers
5) Homogeneous (identical) products
6) Buyers & Sellers have full information

Section B: Multiple Choice Questions (20 points)
Select the best answer.

1. A difference between a stock in a corporation and a corporate bond is that
   a. the stock represents a legal claim while the bond does not.
   b. the bond holder has voting rights within the corporation while the stockholder does not.
   c. stocks are issued in return for funds that are lent to the corporation.
   d. the stock holder is entitled to a return whether or not the corporation makes a profit.
   e. None of the above.

2. If the Whizzo Chocolate Company is profitable;
   a. it must pay dividends to its stockholders.
   b. its pretax profits are either paid as dividends or reinvested in the corporation.
   c. its stock value is likely to rise.
   d. its after corporate tax profits are either paid as dividends or reinvested in the corporation.
   e. c and d.

3. Suppose that you own stock in the Whizzo Chocolate Company. In Friday's Edmonton Journal you read the following;

Whiz	417	10.30	10.75	10.70	+1.25

An explanation consistent with these numbers is;

a. A report was issued by Health Canada showing a link between Chocolate consumption and heart disease.
b. The Governor of the Bank of Canada has announced that the Bank of Canada is lowering its interest rates.
c. A report from Statistics Canada stated that the Canadian economy is going into a recession.
d. The stock market is a Bear market.
e. b and d.

4. Academic book publishers hire editors, designers, and production and marketing managers who help prepare books for publication. Because these employees work on several books simultaneously, the number of people the company hires will not go up and down with the quantity of books the company publishes during any particular year. The salaries and benefits of people in these job categories will be included in

a. fixed cost and total cost but not variable cost.
b. fixed and marginal cost but not variable cost.
c. fixed cost but not variable cost and total cost.
d. marginal cost and total cost but not fixed cost.

5. Which of the following is an INCORRECT statement about average total cost (ATC)?

a. ATC = (VC + FC)/Q.
b. ATC = TC/Q.
c. ATC = AVC + AFC
d. ATC = MC if MC is at a minimum.
e. All of the above are correct.

6. For years the Aluminum Company of America (Alcoa) controlled most of the world's supply of high quality bauxite, the ore needed to produce aluminum. What type of entry barrier was responsible for Alcoa's position in the aluminum industry?

a. Ownership of a key input.
b. A government imposed barrier.
c. A patent on the manufacture of aluminum.
d. Economies of scale.

OR

7. Suppose that at a profit maximizing output, a monopolist has ATC = 22, AVC = 8 and MC = 14. Now suppose that the variable costs in the industry increase due to increasing capital and labour costs. Also, suppose that the local government decides to try to help this monopolist by cutting property taxes, which are a fixed cost for the monopolist. Given this information we know for certain that;

a. output would increase.
b. price would increase.
c. profits would decrease.
d. output and price would not change.
e. there is not enough information given to attain an certain answer.

8. When a monopolist is able to price discriminate:

a. its profits tend to increase and consumer surplus tends to fall.
b. both its profits and consumer surplus tend to increase.
c. both its profits and its consumer surplus tend to decrease.
d. its profits tend to fall and consumer surplus tends to increase.

9. When the economic profits are positive in an industry that is monopolistically competitive, then
   a. firms will enter the industry, thereby increasing the demand for products of the firms originally in the industry.
   b. firms will exit the industry, and the demand will increase for products of the firms that remain.
   c. firms will exit the industry, and the demand will decrease for products of the firms that remain.
   d. firms will enter the industry, and the demand will decrease for products of the firms originally in the industry.
   e. eventually it will become monopolized.

10. Consider a beach that is 4 km long. For the average consumer the cost of walking to an ice cream seller on this beach is $6/km. After the sellers have settled on their final positions, the average travel cost for ice cream consumers will be
   a. $12.00.
   b. $6.00
   c. $4.00
   d. $1.50
   e. None of the above.

OR

Section C: Long Answer Question (24 points)
Complete the following four questions. Show your work.

Question 1 (10 points)

Suppose that a firm that operates in a perfectly competitive market. This market has 1200 firms. This firm experiences the following costs;

Output	Total Cost	Variable Cost	Fixed Cost	Average Total Cost	Average Variable Cost	Marginal Cost
0	95	—	95	—	—	—
1	120	25	95	120	25	25
2	150	55	95	75	27.5	30
3	280	185	95	93	61.7	130
4	420	325	95	105	81.25	140
5	600	505	95	120	101	180

a. Fill in the table.
b. Suppose that the market price was $140. how much would the firm produce? How much profit would it earn? What would the market output be?
c. As this market moved to a long run equilibrium would firms enter or exit? Why?

B $q = 4$

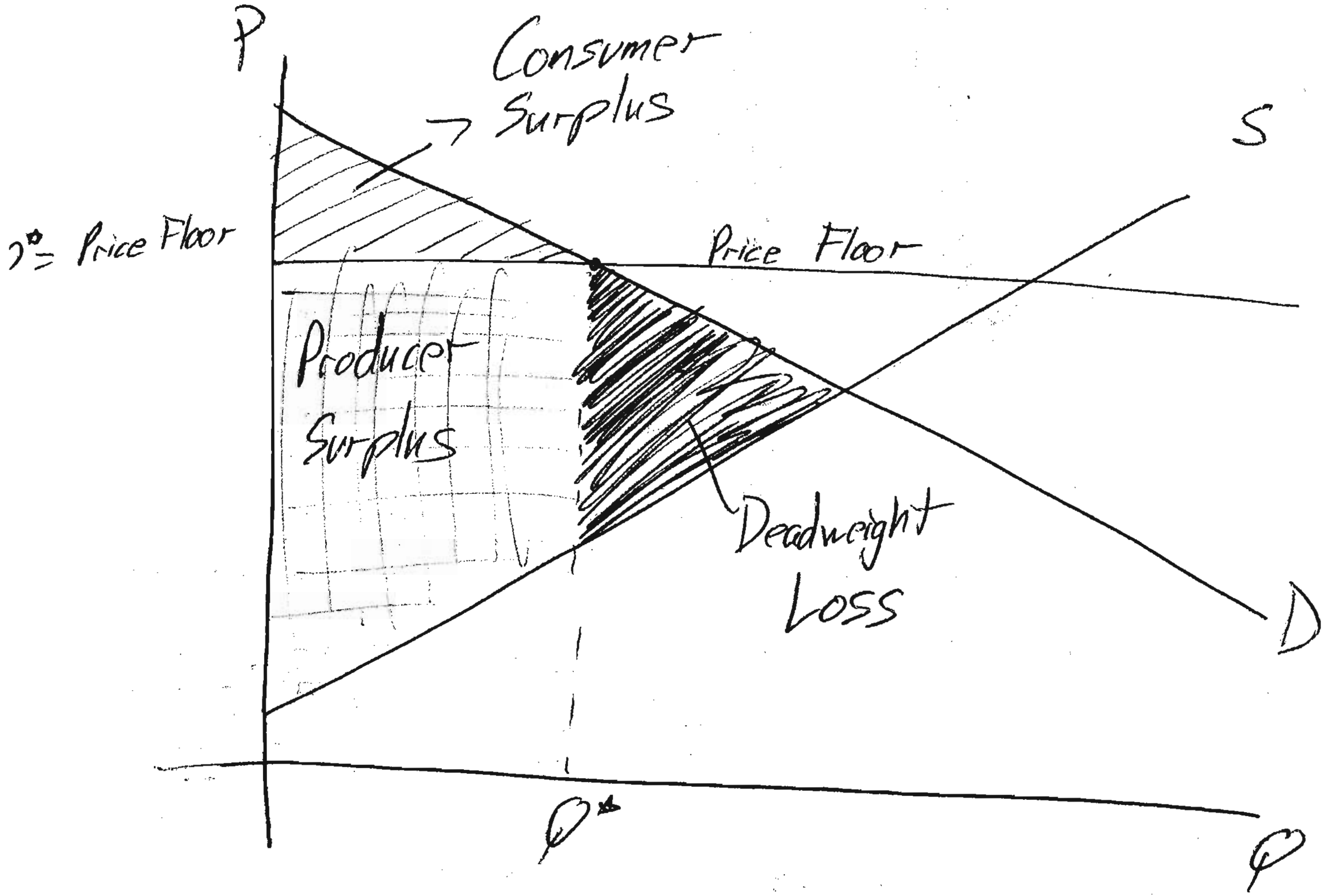
$\pi = (P - AC)Q = (140 - 105)4 = 140$

$Q = qN = 4(1200) = 4800$

C Firms enter

Because profit is available

Question 2 (5 points)
The government of Freedonia has recently imposed an effective price floor in the market for porcelain lupines. With use of a diagram illustrate the Consumers' Surplus, Producers' Surplus and Deadweight Loss associated with this price floor.



Question 3 (9 points)
Nopoli's major export is golf bags which are produced by one company, the Nicholaus Jackson Company. The demand conditions for golf bags as well as the Jackson Company's costs are given in the following table: {Note that quantity is measured in thousands per month, costs are measured in thousands of dollars.}

Price	Quantity	Total Revenue	Marginal Revenue	Total Cost	Marginal Cost
50	0	0	-	64	64 ~~or~~ N/A
48	1	48	48	97	33
46	2	92	44	124	27
44	3	132	40	148	24
42	4	168	36	168	20
40	5	200	32	192	24
38	6	228	28	220	28
36	7	252	24	252	32
34	8	272	20	286	34
32	9	288	16	326	40

(a) Fill in the table.
(b) Find the profit maximizing quantity and price for the Jackson Company. What is the value of the maximum profit?
(c) The government of Nopoli is concerned about its major industry being controlled by a monopoly. It is considering two policies. Policy one is to fine the Jackson Company $15,000. The other policy is to force the Jackson Company to produce the quantity where price equals marginal cost. The second policy forces the company to act like a perfectly competitive firm. Which one of these polices would the Jackson Company prefer? Why?

B) MR=MC @ P=38
π = TR−TC = 228−220 = 8 ($8,000)

C) Policy #1
After 3 months, ~~pr~~ profits resume, but with policy #2, profits never return.

BUT

Any answer accepted due to question wording.