Appalachian State University
Economics 2030 – Microeconomics
December 2016 Test

Instructions: Attempt ALL questions. Values for questions are shown in (). Exam is due by 5PM Tuesday December 6, 2016. NEAT WORK.

1. (15) Enormous State University has the only football team in town. The Athletics Director wants to maximize profit, the Chancellor wants to sell as many tickets as possible, and the Football Coach wants to maximize ticket revenue. Using a single diagram of the football team's demand and cost curves show the price and quantities that each would set. Explain the differences if any exist.

2. (10) Many producers use "celebrity endorsements" as a means of advertising their products. Some argue that such advertising has no value. Evaluate this criticism using the arguments for and against advertising in the text and from the lectures.

3. (10) Show on a graph the long run equilibrium for a firm in an industry that is monopolistically competitive. Explain this outcome. Now show what happens if there is an increase in the cost of an essential input that all firms must use. Explain this outcome.

4. (15) A company is considering building a bridge across a river. This would be the only bridge for over one hundred miles so the firm would be a monopolist. The bridge would cost $2 million to build and nothing to maintain (marginal cost is zero). The table shows the demand at various prices.

Price per Crossing	**Number of Crossings (Thousands)**	**Total Revenue**	**Marginal Revenue**
$8	0		
7	100		
6	200		
5	300		
4	400		
3	500		
2	600		
1	700		
0	800		

a) Complete the table by calculating Total and Marginal Revenue
b) If the company were to build the bridge what would set the price to maximize profits and how many crossings would it sell?
c) Should the company build the bridge? Why or why not?
d) If the government were to build the bridge what price should it charge? Why?
e) Should the government build the bridge? Explain

5. (10) Using the concept of spatial competition explain the "clustering" of fast food restaurants such as we see on Blowing Rock Rd in Boone.

6. (10) Perfect competition exists when an industry has free entry and exit. Show how the presence of profits for a representative firm attracts entry and how this entry results in an equilibrium in which economic profits are driven to zero for all firms in the industry.

7. (10) Perfect competition is the benchmark for economic efficiency. Explain the concept of economic efficiency (that is, what is maximized?). Show how monopoly and monopolistic competition lead to efficiency losses. What are the benefits of such market structures?

8. (10) What is the purpose of regulations requiring banks to disclose to customers that the bank has a rule that borrows with more than one loan outstanding have their payments applied to the most recent loan? This practice is known as revolving credit and is common in the short term loan industry. Without such a regulation would you expect this market to be efficient? Explain.

9. (10) Recall the example of the ice cream vendors on the beach. Where will the vendors locate in equilibrium? Explain why this is an equilibrium. Is it efficient in the sense of minimizing the resources used by the vendors and the ice cream buyers?