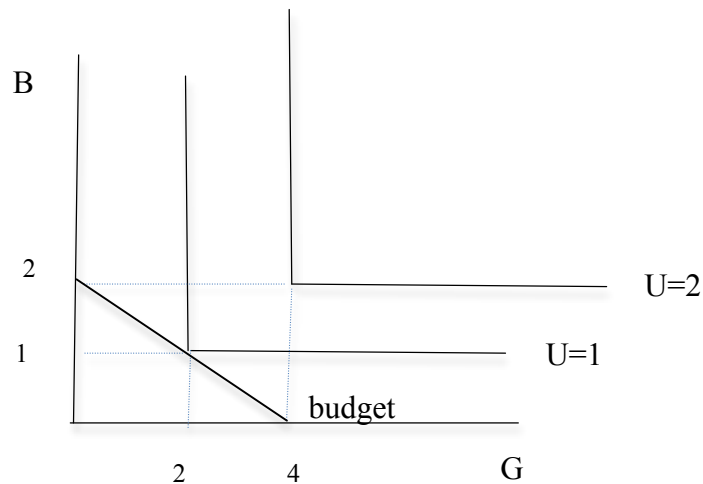


Answers to Test #1

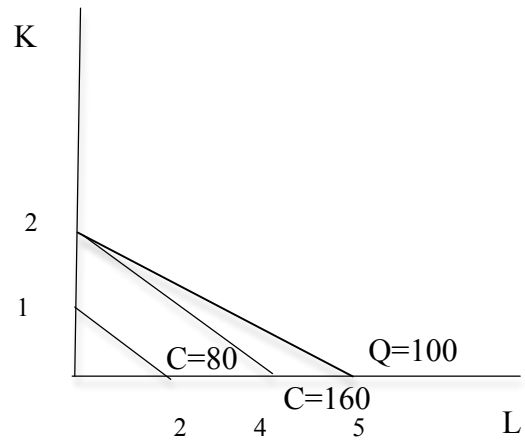
- A. (1) True. As quantity increases, the firm is dividing the fixed amount of cost by an increasing amount, so it always gets smaller.
- (2) False. It will increase the quantity of milk produced.
- (3) False. Price will increase and quantity will remain constant.
- (4) False. It is the area under the demand curve over the price line, so there is no reason to think it would be zero.
- B. (1) you can always reorder who shifts from producing one good to another good in order to avoid concavity, i.e., shift the people first who are least good at producing the good on the vertical axis to producing the good on the horizontal axis.
- (2) 1
- (3) 5;1
- (4) It should buy less capital and more labor until the two sides are equalized.

C. (1)



(2) 2 (see graph)

D. (1) and (2)



(3) $\Pi = 2(50K+20L) - 80K - 40L = 20K$

(4) 20

(5) 0

E. (1) $w = 10, L = L_D = 1500$

(2) 250, 70, gain: $7500 - 70 = 7430$

(3) 50

(4) $50 \cdot 4000 = 200,000$

(5) many possible answers.....

