Professor Joyce Jacobsen

Economics 110-01
Spring Semester 2010-11
March 4, 2011

Answers to Test #1

A. (1) False. So long as the firm covers its variable costs, it will still operate in the short run with negative profits.

(2) False. It will decrease the quantity of soft drinks produced.

(3) True. This causes a movement along a supply curve with the corresponding changes in price and quantity.

(4) False. They generally slope downward and are generally curved.

B. (1) The demand curve for knives shifts to the right, so price and quantity increase.

(2) 0

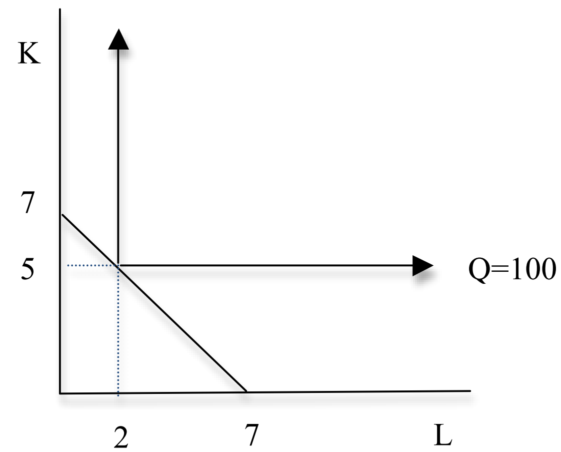
(3) If there is no change in quantity, then there is no deadweight loss.

(4) She should buy fewer apples and more bananas until the two sides are equalized.

C. (1) 1

(2) 2/3

D. (1) and (3)



(2) K = 5, L = 2

(4) K = 5, L = 2

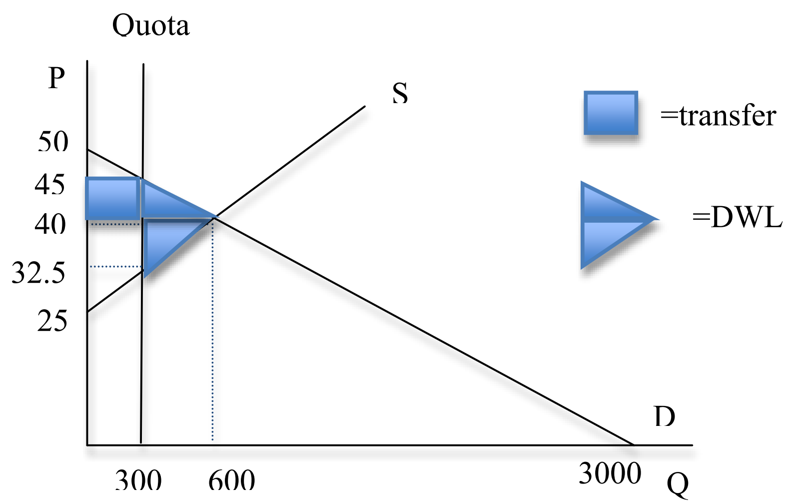
E. (1) P = 40, Q = 600

(2) the same as above because the quota is nonbinding

(3) P = 45, Q = 300

(4) 1875; 1500

(5)



(6) 12.5